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FRONTIERS OF TRADE

FRONTIERS OF TRADE

BY

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AND DOMESTIC COMMERCE

With a Foreword by

HERBERT HOOVER

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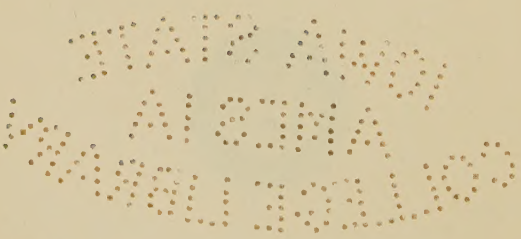

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TO
D. B. K.

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FOREWORD

December 1, 1928

Since the beginning of the World War the trade relations of the world have passed through a great crisis and in many ways a great revolution. Our country came through this ordeal stronger in its foreign trade than ever before. There is no single man in our country who has contributed more to this wonderful accomplishment than Dr. Julius Klein. He has given to this service nearly eight years of his life at a large personal sacrifice. There is no one so able to present this record or whose judgment of plans for the future is so well grounded.

HERBERT HOOVER

S. S. MARYLAND

INTRODUCTION

NONE of the profound transformations effected by the war has been fraught with greater world significance than the widespread expansion of American economic interests overseas during this dramatic decade. These have comprised a host of dynamic factors—foreign trade, investments, shipping, communication facilities and a formidable total of so-called invisible items in our international balances. It is of paramount importance that such basic forces be observed and scrutinized with increasing care by the people of the United States.

There seems to be literally no end to the ingenuity of man in devising new vehicles for the swifter transmission of things and thoughts. Each new refinement in marine engineering, in electric turbines, in the radio, in transoceanic telephony, in international air traffic is bringing the peoples of the world together in closer intimacy. Firm and lasting foundations are thus being laid for mutual advantages, commercial and financial interchanges, and better international understanding. It is only by the penetrative, dispassionate and sympathetic analysis of the problems and the points of view of other nations as they affect our interest in these fields that the barriers of suspicion and hostility can be broken down.

Foreign trade is among the most widespread of

these international contacts. Indeed, as Herbert Hoover has indicated in the past, it is an obligation and a bond among all the diverse peoples of the world. Having become an indispensable part of the modern economic system, it underlies all of our mutual civilization. We could not keep humanity alive nor society from anarchy if it were to cease.

Foreign trade flourishes only in peace. Warfare may breed an abnormal, momentary growth of profiteering in international traffic, but this excrescence is bound to disappear as soon as normal conditions are restored.

International business rests to a peculiar degree upon credit, which is but another name for confidence—a confidence based upon definite knowledge and conviction as to the integrity, assets and business standards of each participant in every business transaction.

Foreign trade is a business stabilizer and stimulus; it is a well-tried expedient for taking up the slack of seasonal or other depressions—a means of creating employment for workmen—a rich field for the profitable application of our energy, our resources, our commercial skill and acumen. It means vast added sums for American pay-envelopes and savings-accounts.

To a large group of far-sighted manufacturers, export selling means precisely the difference between profit and loss on their activities as a whole. It insures the full-time operation of plants, with consequent stability of wages, prices, transportation and other vital economic elements. Export is therefore, and will be more and more, a factor in modifying

any dangerous dips in our industrial "curve." To change the figure, it is being appreciated increasingly not as a panacea but rather as a mild, sustaining stimulant to our industrial organism.

Possibly the most striking fact in our present foreign-trade position is the really amazing gain in the sale of our fabricated products abroad. The marvel is that we can pay the American workman two or three times as much as our competitors and yet undersell our rivals in the markets of the world. This has been made possible not simply because of abundant natural resources but particularly through the natural flowering of national genius and character. Consequently, we are justified in believing that what has been accomplished in the past is only a prelude to what we may hope to achieve in the future. Our inventive ability, our capacity for developing the technique of mass-production made possible largely by our vast domestic demand, our present strong tendency toward economical standardization, our exceptional aptitude for associational action—all these are forces operating powerfully in the direction of American foreign-trade success.

Still other elements are making notable contributions toward that same end. Our international economic interests are constantly being linked up with an ever-greater number of the aspects and angles of our American life. Our fourteen billions of oversea investments are owned, not in concentrated blocks by a few large bankers, but by tens of thousands of small investors scattered all over this broad land. The nearly 500,000 tourists who go abroad

each year, whose expenditure of almost $900,000,000 forms a potent factor in the economic adjustments between nations, come not merely from the limited circles of the well-to-do but very largely from the ranks of students, teachers and that sturdy element of our middle classes who make up the very fiber of our nation. The 17,000,000 tons of our merchant marine and the substantial participation of our railways in this traffic indicate further ramifications of our steadily widening interests in the business of the world as a whole.

In the early months of 1921 the Department of Commerce was receiving about 700 requests for information on foreign commercial matters every day. At present the daily average is in excess of 11,000 such queries. The significant feature of this great and ever-rising tide of nation-wide interest in oversea commerce is the fact that the bulk of these queries originates with small merchants and manufacturers to a degree undreamed of even a few years ago. It would seem that to-day, as never before in the nation's history, our foreign economic relations are the direct concern of vast numbers of our citizens and not simply of a few leaders in commerce, finance and public affairs.

Thus the problems of international trade call for, and are worthy of, the best intelligence that the mass of our people can devote to them. They should be well informed on the salient economic topics of to-day and of to-morrow. They should be in possession of such facts as will enable them to appraise justly the great commercial tendencies and developments that are so intimately related not only to their

own welfare but to the peaceful progress of mankind.

In my endeavor to bring together a few, at least, of those facts in the series of papers which make up the present volume, I am indebted to various publishers of periodicals and books who have generously granted me permission to reproduce here certain material that had previously appeared under their respective imprints. Among those to whom I desire to express my most cordial appreciation of this courtesy are: The McGraw-Hill Publishing Company, the Curtis Publishing Company, "The New York Herald Tribune," The Century Co., the "Magazine of Wall Street," Longmans, Green & Company, Doubleday, Doran & Company, and the Council on Foreign Relations.

Mr. F. Lamont Peirce and Miss N. V. Walling of the Bureau of Foreign and Domestic Commerce have rendered invaluable assistance in the preparation of the manuscript. Indeed, each of these papers represents reactions that have arisen in connection with the efforts of that bureau in the service of American commerce in many lands during the past eight years. Whatever merit the volume may have is derived in large measure from contact with the fine, loyal enthusiasm of the young men and women of this organization, both at home and abroad, who are so effectively devoting their energies to the advancement of the nation's economic interests.

Most of all I am indebted to an inspiring personal and official association since 1921 with Herbert Hoover. Although he is, of course, in no way responsible for the views expressed herein, his intimate familiarity with these problems through prolonged

first-hand studies of them under all conceivable circumstances, and his direct, vigorous approaches to their solution, have afforded unique opportunities for the analyses attempted in these pages. My obligation to him is far deeper than can be expressed here.

JULIUS KLEIN

Washington, D. C.,
January 1, 1929

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Part I

THE WORLD'S BUSINESS YESTERDAY AND TO-MORROW

CHAPTER I

COMMERCE AND CIVILIZATION [1]

WHAT place has commerce had in the development of Western civilization? After all, the raucous intelligentsia continue to remind us cynically that "business is still business," and if it has added anything to our civilization, its contributions have been but mercenary detractions from the loftier aspirations of mankind. Is the Moloch of modern industrialism anything but enthroned avarice? How can the metallic notes of clinking coins mean anything but discord with the more exalted strains of higher idealism? Can there be anything of real value to culture and civilization in its broader sense in the "babblings of the Babbittry" in the market-place? As business emerged from the darkness of mediævalism with the tawdry pageantry of the guilds and of the princelings who capitalized the trade rivalries of the cities, did it not leave behind a tragic trail of ruthless exploitation, of warfare, and the debauching of civic honor? Does not business—the urge for commercial development—bear to this day the grave responsibility for that insatiable thirst for empire, for politico-economic conquest, which has been so

[1] Reprinted from "Whither Mankind?" edited by Charles A. Beard. (Longmans, Green & Company, New York, 1928.)

repeatedly the cause of ghastly holocausts throughout all history?

Can such an element be rated as a truly constructive factor in Western civilization? Have we not progressed in spite of this malevolent force rather than because of it? What has it really contributed aside from crass materialism and the debasements incident to its pursuit?

At the outset, the case for business raises the counter-query: How much of Western civilization would have been possible had there been no solid foundation of material prosperity in each successive age upon which the lofty edifices of our culture could have been erected? To put it more concretely with an example from one of the golden eras of Western history, the glories of Gothic architecture, which have immortalized the best of mediæval idealism for us, rose primarily from the organizing ability, the industrial ingenuity, and, above all, the solid earnings—sordid perhaps at times, but none the less substantial and indispensable—of craftsmen who were the progenitors of the business world of today.

One wonders what would have been the fate of latent genius in all the fields of art and letters throughout the ages had it not been for the continued and still continuing patronage of these "mercenary magnates" whom the present-day literati delight to lampoon. Many of the brightest names typifying the heights of achievement in painting, poetry, sculpture, architecture, science and medicine would have disappeared without record, and Western civilization would have unknowingly been the

poorer, had there not been some affluent patron ready to divert his earnings to immortalize the genius of some master. Nor should we omit the inspiring and invaluable works in philanthropy and social service which have brightened many an otherwise dark page of arrogance and selfishness in Western history, which the world owes to these same "materialists," from the days of the great Fuggers of Augsburg down to their counterparts of our own day. Granted that the motive may all too frequently have been the shallowest vanity, the world is none the less their debtor.

In order to be both just and accurate, we must appraise the place of business in this picture, not simply as a thing of material substances, but as a vehicle for the progress of humanity in all directions. The world of business is not simply made up of machines and merchandise, of counting-houses and factories. It is the expression, indeed the very means of existence, for civilization. As Herbert Hoover once expressed it in speaking of American business advancement, "We are a nation of men, women and children. Our industrial system and our commerce are simply implements for their comfort and happiness. When we deal with those great problems of business and economics, we must be inspired by the knowledge that we are increasing and defending the standards of living of all our people. Upon this soil grow those moral and intellectual forces that make our nation great."

These same considerations are applicable not simply to the business life of each nation; they bind the world of international commerce and industry

in one compact unit, whose economic interdependence is more and more evident with each new stage in the advancement of our civilization.

Time was when business was inseparably linked with the agencies of international discord and destruction; and in the earlier ages, when nationalities were but vaguely defined and political units were reduced to hundreds of petty principalities and city states, the exploitation of their rivalries by merchant princes was widespread. Indeed, it was but the inevitable commercial reflex of the primitive principles of all relations between individuals that the ominous warning of *caveat emptor* was ever in the ears of every prospective buyer. Even after the well-organized city fairs—the international marketplaces of that earlier age—and the strict regulations of the various guilds had established certain elementary rules of commercial ethics, the cloud of suspicion and fear still darkened the practices of trade. Although in some quarters this principle survives to this day, it is being more widely realized that the only permanent foundation for business operations is to be found in the mutuality of advantage in each transaction for both parties. Business to-day rests predominantly on credit, which is but another name for confidence, which, of course, perishes instantly in the presence of that sinister mediæval warning that the buyer must beware.

But let us get down to specific details and review some of the outstanding contributions of business throughout Western history, in terms not so much of their meaning in the narrower limits of econom-

ics, but in the broader sphere of general well-being.

The threads of business run throughout the fabric of the recorded annals of Western civilization. Without the urge and indeed the resources of trade and industry, not only would many of its brightest segments have been unwoven, but the very texture itself simply could not have survived. In the dreary records of the decline in one state after another a conspicuous factor has been the laxity of business morale, the weakening of commercial acumen and fiber. In some cases these once prosperous commonwealths have faded from history because of the failure of some vital trade advantage, as in the case of the mighty Hanseatic League of the north and the powerful city states of the Mediterranean.

The gradual spread of civilization moved with the tide of trade. The Phenicians were the pioneers as they felt their way cautiously from one sheltered haven to another along the shores of the inland sea, ever searching for new commodities, new markets. Finally, they boldly ventured forth on the vast wastes beyond the Pillars of Hercules and left the evidences of their barterings from the quarries of Cape Spartel to the stannaries of Cornwall—mere vestiges of sordid business, if you will, but also the very fuel of the light of civilization; for with the records of their trafficking they brought to Western civilization the alphabet.

Then in their wake came their commercial heirs and colonial descendants, the Carthaginians and Greeks, with their substantial market centers at a dozen strategic points, exploiting hitherto unknown raw materials and stimulating new industries, many

of which ultimately became the foundations of mediæval society. Thus was the dark curtain of barbarism gradually pushed back as civilization, in the person of the lowly trader and hardy mariner, slowly groped along its way westward and northward, establishing its market posts, its primitive industries, its standards of barter with the natives. Imperial Rome, with her panoply of military and majestic splendor, felt herself far from demeaned by the activities of her merchants. The network of roads which she spread everywhere for the feet of her conquering legions were also the highways of her traders, whose operations she shrewdly appraised to be as potent a binding force of her power as were the ranks of her soldiery. The *pax romana* was the shield not simply of her far-flung political institutions but particularly of her caravans and shipping. The visible vestiges of her empire may suggest primarily the breadth of her military power from Hadrian's Wall in North Britain to the great camp of the Ninth Legion at Merida in western Spain, the barracks of Timgad in Mauretania (Algeria), and the Roman posts in farther Asia Minor. But more enduring and far more vital in their reactions on the world's civilization were her codes of business law, which to this day are factors in the affairs of trade and industry throughout the Latin lands of the Old World—and in the New, from Argentina to California and Louisiana.

As the Gothic hordes poured out of the wilds of Germany, the "Roman peace" was ended and darkness closed down upon the Western world. Business reverted to the primitive stages of nomadic

barbarism, of furtive bartering, in constant fear of swarthy Saracen raiders or the rapacious viking sea-hawks. But even with the threats of these two menaces from north and south, there came a constant stream of commercial and industrial contributions to the revival of civilization—wool, dyewoods and spices from Africa and the Near East—to say nothing of those invaluable Arabic contributions of mathematical and classical lore—and numerous commodities and shipping experience with each visitation of the Northmen.

The first glimmers of a more pretentious commercial revival came in the commissaries of the Crusaders, who were soon followed by the merchant fleets of Venice and her rivals. The development of their lucrative trade with the Near East not only inspired many phases of architectural and literary accomplishment in western Europe but provided the foundation of riches for the patronage of art and literature in northern Italy during the generations of their greatest achievements. Once more the crass materialists of business sheltered and made possible the works of many of the immortals of Western culture.

These merchant princes valued law and order; in fact, their fortunes were vitally dependent upon security; and though the world of politics was riven with petty rivalries and clashing ambitions, the business life of the Middle Ages gradually evolved a comprehensive but effective series of international agreements and standards of commercial and industrial behavior which laid the foundations for the restoration of Western civilization after its dismal

depression in the Dark Ages. The formulation of such thirteenth and fourteenth century sea codes as those of the Hanseatic stronghold of Visby in the Baltic, of the island of Oléron in the English Channel, and of the Catalan *consolat del mar* in the Mediterranean, maintained for centuries the basis of international shipping practice—integrity and mutual confidence. Similarly, the standards and usages of the guilds and of the great international fairs at Medina, Lyons, Leipzig, Frankfort and elsewhere, which gradually crystallized into written codes, provided the foundations for modern municipal institutions and for commercial and financial codes, many of which survive to this day. These were the symbols of that mutual trust which has always been the indispensable factor in enduring business relations—the spirit which found expression in those early days in such usages as the phrase "easterling" as applied, in confident acceptance at face value, to the silver offered in trade at the London Steelyard by the "easterlings" from the Hanseatic towns around the Baltic and the North Sea.

Thus there gradually emerged the steadily strengthening demand of the business world for orderly, peaceful relations which gave powerful impulse to the movement toward the abolition and consolidation of countless petty principalities and the development of solid national growth. The abiding and compelling convictions of the merchant world thus left upon the everyday lives of men and women throughout the civilized world an enduring mark which was far more real and immediate to them

than all of the lofty sonorous thunderings of the imperial edicts whose glamours so dominate the pages of orthodox historians.

It was only as these business agencies strayed from their proper fields and wandered along the devious paths of political aspirations that their usefulness and solid worth began to crumble. When the guild rules no longer reflected the conditions and standards of living and slowly caked down as a deadening restraint upon the freedom of enterprise and initiative, and particularly when they injected themselves into local and even national politics—even as business has done, to its shame and degradation, in many a later day—the influence of these once guiding spirits upon mediæval industrial and commercial life began to fade. When the Hanseatic League, once the proud mentor of trade standards throughout Europe, whose far-flung counting-houses from Bergen to Venice, from London to the lower Danube, stood for sterling integrity and impeccable reliability, began to intrude upon the affairs of state, upon the bickering of political factions and the rivalries of petty dukedoms, its powers as an agency for business morality and good-will soon dwindled.

The dramatic episode of the discovery of America has been ascribed to a variety of impulses—the super-emotional expression of the new era of the Renaissance, and the urge for new outlets for the adventurous spirit and religious ardor which had been rampant in Spain for more than seven centuries. The golden age of exploration and discovery, which dawned during the later fifteenth century and

reached its zenith during the first half of the sixteenth, comprised a series of the most brilliant achievements ever attained in the recorded chronicles of grand adventure. We think of this epoch usually in just those terms—a bewildering story of astounding valor, incredibly fantastic daring and truly prodigious energy. It would seem at first to be the sheerest sacrilege even to suggest the possible contamination of this immortal epic by any such lowly influence as commerce, and yet it was there, constantly and potently.

In appraising even the most exalted inspirations of men, such as this era of glorious adventure, it is folly to ignore that most prosaic of impulses, the need of food. And so, in searching for the motivating forces which so profoundly changed the current of Western civilization and enriched its annals with a hundred odysseys, we must not ignore the yellowed pages of the cook-books of the time. They have none of the glittering luster of royal decrees or the illuminated splendor of papal bulls, but surely there could be no more immediate contact with the everyday life of humanity than this literature of its daily board.

The urge that drove the Portuguese down the west coast of Africa, incidentally leading to the accidental discovery of Brazil en route; the impulse that drove Columbus on that hazardous adventure across the dark wastes of the Atlantic; and the inspiration of the frantic efforts to break through the fogs of the Northwest Passage, and of the countless subsequent drives during the succeeding centuries to penetrate the unknown wilderness of the

new continent—all of these immortal episodes had as their chief objectives the attainment of new trade routes to the precious stores of spices in the East.

Pepper, cloves and cinnamon were absolutely indispensable for the heavily predominant meat diets of western Europe. Vegetables, in the opinion of those whose opinion counted, were fit only for the crude board of the peasantry. The tables of the rest of society groaned under endless courses of meat, fish and game—hence, the elaborate laws of the time on poaching, forestry, hunting, etc. The only substitute for refrigeration was a profusion of spices; and if there had been no such emphatic demand for them, issuing with increasing emphasis from every kitchen in western Europe as living standards improved, one wonders whether there would have been any abiding persistence, any lasting accomplishment, to all of the adventuring, all of the fervid revival of the Crusaders' spirit, all of the hunting for the hated Moslem in the Orient.

When the *Victoria,* the lone survivor of Magellan's little fleet, finally tied up on the bank of the Guadalquivir at Triana, her precious cargo of cloves not only paid for the entire expedition but inspired quite as much jubilation as the astounding contribution to the world's geographic lore. Business had its part, and a vital one it was, in that memorable stride in the advancement of Western civilization in its very first literally world-wide effort.

Later, as the era of colonization came on, we find once again that the longing for religious and political liberty was not the sole impulse which inspired that great effort in projecting Western civilization

across the seas to the New World. The diaries of the early governors of the Plymouth Colony are dotted with references to the sums they "cleaned up," to use their own good Elizabethan phrase, on beaver skins and lumber. The first seeds of that sturdy growth which was later to rise as the towering forest of modern American business were planted by those stern devotees of Calvinistic frugality. The dazzling riches of Aztec and Inca focused attention on the exploitation of those mainland sections of the Spanish empire; but, as their easily accessible treasures dwindled away, the more lowly commodities of the island colonies came to the fore. The French physician Jean Nicot had introduced Europe to the allurements of "those curious incense burners of the West Indies called *tabacos*" and had given his name to the distinctive ingredient of the weed. And so the trade in tobacco, and far more notably that in sugar, came to inspire the struggles for empire which were waged in those waters for two centuries —struggles which wrought ultimately the dismemberment of the vast domains of Spain, at one time the greatest ever held under one flag—followed by the passage of supremacy from one dominant trading nation after another.

Portugal, Spain, Holland, France and England each contributed its quota to the advancement of civilization in the New World and the Orient, and the annals of those contributions are inseparably linked with the business records of the time: galleons, merchant adventurers, East and West India companies, the Hudson's Bay Company, the Darien Company, the Guipuzcoa Company and many others

of lesser fame. All of them obviously had their political aspects. Indeed, the conquests of government and business went hand in hand and shared jointly in the countless episodes which stand high on the honor pages of our Western history—and also, be it added in frankness, in more than one shameless atrocity of exploitation and vicious deviltry. The sordid association of business and politics is not solely a phenomenon of our own time.

With all of these world-wide searchings for new trade routes and exotic products there poured in upon the Old World an ever-increasing tide of raw materials and contributions to everyday comfort, not simply of the finery of Oriental fabrics, rare jewels, ivory and gold, but lowly vegetables which were to change and vastly improve the diets of countless thousands—the potato and tomato from Peru and Chile, chocolate from Mexico, to say nothing of far greater quantities of sugar and coffee than had ever been available at moderate prices from the meager stream which had hitherto trickled to Europe through the Near East. Later, also, there came new cabinet woods, rubber, tobacco, vegetable dyes, cotton, numerous other fibers, and new base metals, all of which reacted profoundly upon the industrial development of the Old World. With these new riches and comforts there came the resultant new desires for better things and simultaneously the means for their gratification.

Out of it all there emerged from the antiquated guild crafts first the crude domestic industries, then the industrial revolution and finally the factory system—the successive foundation stones of modern

business. Through them was industry emancipated from the mediævalism of the guild system with all of its rigid regulations and stern archaic restrictions. A new era of business had come into being with far broader horizons world wide in their scope. The autocracy of the craft hierarchies of the Middle Ages was gradually displaced first by the domestic "putting out" system of fabrication, the hybrid link between the home crafts and what was to follow, and finally by the full-fledged new element of the factory system. Democratic in its origins, springing as it did from the very roots of the social order, it was soon to be transformed into the ruthless tyranny of the new factory magnates who bestrode the life, political as well as social, of the later eighteenth and early nineteenth centuries with inexorable power.

In two brief generations, from 1770 to 1840, they had created a new empire in England, which was soon to have its prototypes on the Continent and across the Atlantic, an empire of mills and foundries, of railroads and canals, and with it all a formidable array of sordid problems profoundly affecting the lives of millions yet unborn. The host of new mechanical devices upon which they rode into power over the old industrial order became the symbol of their cold, calculating régime. They dominated the national drama of each major commonwealth in succession, even though they may not have been out in the center of the stage in every scene.

The factory chimneys of Manchester were indeed the guns that won the Battle of Waterloo. The craving for empire was the theme of the Napoleonic

era, but the means of its attempted gratification on the one hand and of its final frustration on the other originated in the grimy ranks of industrial and commercial strength, whence came not only the physical equipment of warfare but the equally invaluable weapons of embargoes, blockades and, above all, fiscal resources.

Had industrial history been just a generation ahead of this schedule, there is no telling what would have happened to the gaunt scattered bands of Colonial soldiery across the Atlantic and to their precious cause. Once again the evolution of business —fortunately retarded this time—played in a negative way a vital part in the development of Western civilization.

After these spectacular, epoch-making transformations, the progress of the world's business during the first half of the nineteenth century seemed drab and lethargic. The heavy losses of warfare and of various crises in the Old World and New, aggravated by the inevitable nationalistic ardor, which has followed in the wake of every war in modern history, considerably modified the progress of international economic affairs. It took two decades for the world of business to bind up its wounds and convalesce from the wars of the Napoleonic generation.

The latter half of the century saw the accumulated momentum gathering speed with each swiftly passing decade. Even with rising prices—and there were considerable dips as well as ascents in the price curve during the later years of the century—this represented a most substantial gain in volume

of trade. Industrial output grew at incredible speed.

Then came the thirteen years of the new century before the storm broke in the summer of 1914, a period of prodigious commercial and industrial expansion during which the business world, as in the years just before the Napoleonic wars, seemed to be unconsciously preparing itself for the frightful losses of 1914–18.

When we come to interpret monotonous rows of ciphers in terms of their reactions on human living and civilization, the task is indeed a formidable one. Each age is fond of ascribing to itself the favored position as the "turning point" or "crucial period" of the trend of history. Day quotes the American historian Adams and the economist Wells, who expressed in 1871 and in 1890 respectively their conviction as to the "unique and startling achievements" of the closing decades of the century, a period whose importance was undoubtedly "second to but very few and perhaps to none of the many similar epochs in time in any of the centuries that have preceded it."

Looking back upon that period, however, and particularly on the record of the relationship of business to the larger problems of society, it seems to be somewhat obscured by various questionable tendencies. True, it was an age of astounding advancement in volume of material achievement; but on the less tangible, though far more lasting, aspects of its record, there is less cause for gratification. The gross offenses of monopolistic aggression, both of railroads and industry, in the United States soon

brought business before the bar of an outraged public opinion. The results were the Interstate Commerce Commission and the Sherman Anti-Trust Law. More potent even than these and similar stern mandates on the written statutes in the eighties and nineties was the chastened spirit of business itself. From the cynical, mercenary devotees of trickery, connivance, deceit and a general "public-be-damned" attitude—who had been so completely dominant in fixing the low standards of business morality—there gradually emerged a recognition that in self-defense business must shift its tenets to higher levels. The rigors of increasingly intensive competition made the consuming public the master; the rule of high-handed autocracy which dated back a century to the industrial revolution was distinctly at an end. Business became a thing of morals; its pursuit became a profession, which at last took its place with equal dignity and self-respect beside the law, medicine and the ministry. The Wharton School of Finance was established at the University of Pennsylvania in 1881, and the Harvard Business School in 1908—a century or so after the first law and medical schools of the country and almost three hundred years after the first theological seminaries. "Is one to conclude," asks Owen D. Young, "that Harvard was fearful of an illiterate ministry of religion in 1636 but was not apprehensive of an illiterate ministry of business until 1908?"

The factors that entered into this amazing transformation in the soul of business are the basic themes of its history during our own generation, the truly vital contributions which it has made to the civiliza-

tion of our time. The part played by business in the up-building of society to its present levels has been along widely divergent lines. First and most obvious is its contribution to the material comforts of mankind through a never-ending succession of inventions, each apparently more ingenious than its predecessors, each contributing an item which to-day may seem the sheerest luxury, but to-morrow an imperative necessity. The resultant transformations in our entire social order have been profoundly significant.

The almost unbelievable improvements in the means of transporting both things and thoughts within the past two decades have made the whole world one closely knit unit. Distance has been annihilated and with it the host of suspicions and hostilities that go with estrangement. In 1914 the combustion-engine supplied only 5 per cent. of the horse-power in the United States; to-day it contributes more than all other sources of power combined. It has completely remade our methods of business and the lives of our people on farms and in cities, while it has created a host of entirely new industries and fields for service. It has made lighter the burdens of thousands, it has bound together all sections of the country, however remote, with broad bands of concrete, and, be it said with regret, has plastered the country-sides with billboards, gasoline stations and road-houses.

The world's telephone wire mileage was about 33,700,000 in 1913; it was more than 94,000,000 in 1926. During the same period the number of pieces of mail carried increased from fifty billions

to seventy-three billions, while the passengers carried on the world's railway systems rose from seven billion to nearly ten billion. Scores of other figures might be cited on these vital factors of the new age of transportation and communications as to the astounding increase of international cables, the magic growth of the radio, the incredible advancement of aviation, transoceanic wireless telephony from San Francisco to Stockholm, from Berlin to Buenos Aires, the significant economies and increased efficiency of petroleum burners, of the Diesel engine, and of the electrification of industry and transportation.

From the point of view of business this tightening of the network of bonds of contact and communication around the globe has effected formidable savings through the speeding up of valuable papers and commodities in transit. The newly established combination air and fast steamer mail service between Paris and Buenos Aires, cutting the schedule from twenty-one days to ten, will save millions in interest each year. The most highly perishable "commodity" to-day is commercial intelligence, and the usable supply of it has therefore been prodigiously increased by every new medium for expedited transmission of trade information and the means of its translation into values.

It is true that with all of this speed, close contact and resultant familiarity has come the disappearance of much that is romantic; distance lends enchantment, and consequently all such spaces annihilated have robbed our present-day life of much of the leisurely charm and picturesqueness of the old

days of the post-road and the clipper ship. Some cynics have even wondered whether Sarajevo could have brought on the holocaust of 1914 without the radio and telegraph flashing with blinding speed each hasty impulse and momentary passionate outburst from capital to capital which urged on the fateful irretrievable decisions, or whether the cataclysm of 1870 could have happened without the "telegram from Ems."

To-day, instead of dreaming in peaceful isolation, each industry or trade is almost instantly responsive to impulses generated far beyond the horizon. Never before has the business of all peoples been so completely, so literally internationalized, so entirely interdependent. The textile mills in a small New England town come upon hard days; their principal market in far-off North China has dwindled because the sole industry of those remote Mongolian villages has collapsed, thereby destroying the buying power of their poverty-stricken inhabitants. Their livelihood was gained from making hair nets, and the sudden shifts of feminine fancy brought on the bobbed hair "wave," and the once thriving Chinese hair-net industry now lies buried under fourteen million pounds of long locks which have been shorn since the craze started—whence comes at least a portion of the distress in the New England textile mills.

Of course, this despair of the modern business man in the presence of the terrifying devastations of changes in fashions is by no means a new phenomenon. In A.D. 22 Tiberius made these bitter observations to the Roman Senate: "If a reform [in dress]

is in truth intended, where must it begin? And how am I to restore the simplicity of ancient times? . . . How shall we reform the taste for dress? . . . How are we to deal with the peculiar articles of feminine vanity, and, in particular, with that rage for jewels and precious trinkets which drains the empire of its wealth and sends in exchange for baubles the money of the commonwealth to foreign nations, and even to the enemies of Rome?"

By these world-wide transmissions of impulses which react instantaneously upon trades and industries tens of thousands of miles apart, business has become infinitely more complicated. The merchant and manufacturer of to-day can no longer exist in comfortable isolation even if they wanted to. They must know what is going on not simply locally but in remote parts of the world if they are to carry on their operations profitably. They must prepare for repercussions upon their establishments from far-off outposts of civilization whose very existence was entirely beyond the comprehension or interest of their immediate predecessors.

In the face of this complete transformation of the world of industry and trade it is the sheerest folly to contemplate the "return to pre-war normalcy," as is still the practice in some quarters. As a matter of fact, the business world realizes now, as never before, that nothing could be more disastrous than a reversion to the utterly mediæval business practices and levels of 1913. To suggest that we scrap all of this and build our hopes and plans on 1913 specifications is simply babbling anti-

quated twaddle. For some years immediately after the war, it was customary among statisticians to base their calculations on pre-war index numbers, usually taking 1913 as one hundred or perhaps the annual average for the last five pre-war years. To-day the United States Department of Commerce is basing practically all of its statistical indices on the average of the years 1923–25 inclusive, which is taken as a typical intermediary point in the post-war period.

The great reason why American business has progressed at such an incredible rate since the war has been its appreciation of the fact that it must get away from the old and endeavor to attain steadily rising levels. The greatest monument to American industrial and commercial achievement is the enormous junk heap of abandoned practices, methods and ideals, all of which were once "normal," but which to-day are the most useless relics of antiquity. Perhaps American business has been wasteful, but it would have been even more disastrously profligate had it remained shackled to the sanctified precedents of a mummified past.

American industrial growth is in the main a matter of steadily advancing machine technique, of super-organization and of management engineering and equipment efficiency, all of which are factors susceptible of continued rapid advancement and change. In general, the whole environment of American industry—labor scarcity, abundant raw material, large domestic markets—has created a combination of circumstances vastly different from those prevailing in Europe. It is only with the greatest

caution and reserve, therefore, that one can contemplate the transfer of American methods of efficiency, mass production and rationalization to the industrial communities of Europe. The development of American industry has been a matter not simply of machines and highly intricate factory organization; it rests upon a vast and steadily increasing purchasing power within a market unencumbered by local trade barriers, racial or nationalistic antagonisms, and all of the other hindrances which impede intra-European commerce.

A conspicuous feature of this improved standard of living and buying power is the increasing tendency of larger industries to open the way for employee stock ownership. This has been described of late as an economic revolution of major significance. Certainly it has made for a democratization of industry in a manner totally different from and probably in large part impossible in Europe—at least in the immediate present. It has given labor such an inseparable part in management and in the profits of industry that the doctrine of curtailment of output has made no headway in the labor movement in this country.

One of the inevitable costs of progress in all waste elimination in production methods has been the displacement of labor as indicated above. This would involve in Europe a factor of major importance, particularly because of the relatively less elastic conditions in industries and business in general—the greater difficulty of launching new practices, new enterprises, new consumer habits, etc. In America the problem has, of course, often been to the fore,

especially in recent years, but there is here a vast advantage of new opportunity, of rapidly advancing buying power, of constant economic resilience, all of which have provided facilities for taking up at least some of the labor slack incident to the general improvement in manufacturing technique.

Throughout the history of the machine age this problem of the repercussions of greater manufacturing efficiency has been ever recurring. Steel production in the United States has increased 50 per cent. per worker since 1913, and the efficiency of each operative in shoe factories has been enlarged 16 per cent. In the American automobile industry each employee is now turning out 11.5 units (cars, trucks, etc.) a year, as against 7.2 in 1913. This development, plus the deflation of America's wartime industrial abnormality, has resulted in a net decrease in employees in our factories of something like 917,000 since 1920. This substantial figure, if added to the 800,000 represented in the decline of employees in agriculture (partly due to more efficient methods, the use of machinery, automotive traffic, etc.) and the 240,000 released from the railroads (likewise due in the main to better operation under private control and greater efficiency of labor) since the war, gives a formidable total of nearly two millions in these groups.

If our observation were to stop at that point—and, unfortunately, several recent commentators have been so overwhelmed with that figure that their emotion has not permitted them to go any farther—the business of the country would be indeed in a grave situation. In fact, more than one scathing

indictment of this manifestation of the modern machine age has been drawn by social reformers.

There has, however, been a most helpful corrective, which has taken up most, though perhaps not all, of the slack—namely, the astonishing increase in non-manufacturing trades and pursuits. For example, since 1920 there has been an increase in the number of workers in automobile servicing and driving of nearly 1,200,000, including nearly 100,000 chauffeurs of buses, a vocation which scarcely existed before 1914. There are nearly 100,000 more insurance agents clamoring at our doors to-day than in 1920. The needs of the new electric refrigeration, light and power, and oil-heating establishments have required an increase of 100,000 in their service employees. Another hundred thousand additional personnel has been required since the war in the management and general direction of construction work. There are 185,000 more teachers and professors required to look after the country's flaming youth of the present day than in 1920. The increase in the number of motion-picture servitors (exclusive of production employees) accounts for another 150,000 added to the payrolls of that exuberant industry since the war. It is not hard to explain the increase of 170,000 barbers and hair-dressers during the same period. One of the most impressive figures is that in the service branches of hotels and restaurants, whose personnel has increased by no less than 525,000 (some estimates run as high as a million) since 1920, a vivid commentary upon the social transformation which has accompanied this post-war development of American business.

These new service functions not only counteract in large part the harmful unemployment effects of displacing manual labor with machinery, they are an encouraging indication of the higher per capita earning power of the operatives of the machines; they are a definite indication of better living standards and of the greater margin of general comfort made possible by lifting many of the burdens of drudgery from the backs of men and laying them on the steel frames of machinery. As defined in the recent observations of a British visitor, "The objective of American democracy is to create an economic system which will assure to everybody who is prepared to work not simply food, clothing and shelter, but a university education, a motor-car, a good annual holiday and all of the amusement within reach, and which will then set to work either to increase his wages or shorten his hours from eight to seven and then to six or five, so that more and more of his life will be spent in those leisure hours when he is master of his own time and fate." Nearly 70 per cent. of the power used in the United States to-day is electrical. According to the latest available figures about $6,000 of capital is invested in equipment and plant of American factories for every worker employed. This substantial sum—a margin far beyond the corresponding figure in leading European nations—accounts largely for the fact that the output per man per hour has increased since 1900 about 80 per cent.

There is a further social consequence of this changing era in the evolution of industry. In order to keep pace with the stream of economic changes

that are engulfing one trade after another, business has in self-defense been compelled to resort to much more aggressive educational campaigns for the building up of trained personnel. The great technical schools in Europe have in recent years been materially strengthened, although their personnel and resources suffered sadly during the war and in the depression in 1921–23. The number of pupils in American vocational schools rose from 265,000 in 1920 to more than 752,000 in 1926. Industry has taken upon itself not only the endowment of such establishments, but also the advancement of educational efforts within its own ranks through research laboratories on a vastly larger scale to-day than before the war, through trade papers whose circulation in the United States exceeds two millions, through trade associations, of which there are more than two thousand in this country, and through close collaboration with various governmental bodies engaged in the advancement of industrial learning. All this has led to a host of new approaches to business problems through more intelligent, far-sighted preparation for their solution.

Industrial strategy is no longer a matter of momentary tactics, of sudden opportunistic shifts with each new situation. Business to-day is operating more and more on long-view planning, upon shrewd, broad-visioned appraisal of situations and prospects, all of which has greatly modified the dangerous variables of risks. The American Federal Reserve System, whose counterpart is beginning to appear in many lands of Latin America and the Old World, has further contributed toward the same stabiliz-

ing process by more effective control of the flow of credit.

Conspicuous among these newer forces of control is the vastly increased coöperative and collaborative element in modern business. As Herbert Hoover has vividly expressed it: "We are, almost unnoticed, in the midst of a great revolution, or perhaps a better word, a transformation in the whole super-organization of our economic life. We are passing from a period of extremely individualistic action into a period of associational activities." These comprise a vast range of trade organizations embracing every conceivable phase of economic interest. There are perhaps twenty-five thousand of them in the United States alone. Although in the case of the European organizations their ancestry is traceable back to the mediæval craft guilds in many cases, the present-day association is vastly different in its interests and significance. The purposes of some of them are admittedly sinister, but there can be no doubt that in the main their efforts are concentrated upon the modification of the destructive elements in our business life.

They stand for the adoption of codes of commercial ethics, for the standardization of grades of merchandise and accepted business practices, for the elimination of malicious competition, the curtailment of costly litigation through the spread of arbitration, and the interchange of ledger experience as a means of stabilizing credit practices. Perhaps the instinctive gregariousness of the American business man, his recognition of his own inadequate experience and the general democratic congeniality of

life in newer social environments have all contributed toward the relatively greater advancement of such trade organizations in America than in Europe.

Nevertheless, business in the Old World is also groping toward the same broad line of development, though with a degree of patronage and control from governments which has not been tolerated in the United States. The European chambers of commerce are usually semi-official bodies, occasionally with compulsory membership, and always with some intimate association with political authority. Their proceedings, therefore, have many of the sanctions of law in dealing with problems which are broached in America by voluntary restraint and informal collaboration. This contrast does not, of course, necessarily involve a judgment as to inferiority; it is simply the result of contrasts in environment, of entirely different social and political institutions, which probably would make difficult the injection of American practices in this respect in the midst of Old World conditions.

The fundamental scheme of the factory system was its autocracy, a characteristic which has regrettably survived to this day in a minority of certain industries and localities. The new development of democracy through employee participation in management and ownership and of broad collaborative effort, particularly among small establishments, through trade associations, is perhaps the outstanding element in the present-day transformation of business. Incidentally, these changes have greatly modified the once widespread custom of condemn-

ing industrial and commercial enterprises merely because of their size. The rapid advance in employee-owner collaboration in the large concerns, on the one hand, and the activity of trade association campaigns to clear up trade abuses among small establishments, on the other, have clearly indicated that there is no essential relationship, in inverse ratio, between the virtue and the vastness of business enterprises. A substantial contributor to this change in the public mind has been the ever strengthening conviction within business circles that good-will is after all the *sine qua non* of survival, and that one of the most effective means for the attainment of that good-will is through collaborative effort in building up accepted standards of sound trade ethics.

Until business can cure its own abuses from within through such commendable means, it need expect no mercy from the public and its authorized governmental agencies. Unfortunately, the experience of the past generation reveals all too many illustrations that such governmental intrusion upon the affairs of trade inevitably implies, especially in a democracy, the most dangerous temptations to bureaucracy and demagoguery. And when the business relationships involved are international in scope, the perils are vastly multiplied. The additional phase of diplomacy and world-wide intrigue then begins to appear with consequent problems of the utmost gravity. Some of these will be reviewed in later chapters on governmental controls of raw materials.

These developments in international distribution bring out all too clearly the fact that among the

outstanding problems confronting business to-day one of the most conspicuous is the need for improvement in this broad field of economies in selling methods. In contrast with production, this aspect of the world's post-war economic development has been given far less scientific attention and intensified effort. The first problem after the termination of the struggle of 1914–18 was the rehabilitation of productivity to fill the gaps in world supplies of goods and equipment. Questions of economy in distribution, of eliminating wastes in selling costs, have only very recently absorbed the attention which they deserve among business leaders. The world as a whole is still obviously in the earliest experimental stages with instalment selling, with such mass distributive apparatus as the chain stores and mail-order establishments, and with problems of more accurate market appraisals, calculations of potential buying power, etc. It is along these lines of more economical and generally less wasteful selling that business is likely to make its greatest progress in the immediate future.

With the widespread growth of more and more associated effort in all aspects of business, the question is frequently raised as to whether we are not witnessing the vast pyramiding of a great Moloch of organized trade completely dominating and overwhelming the finer elements of individual initiative in commerce and industry, the spirit of enterprise and originality.

But there is no real justification for such fear. The old Periclean law gave each Athenian the

right to own five slaves. It has been calculated that every inhabitant of the United States has to-day at his disposal the power equivalent of fifty slaves. Surely there could be no more impressive indication of the contribution that machinery and its directing force, modern business, have made in easing the burdens of drudgery, in sparing the costs of countless tasks, and in making available a larger leisure for the enjoyment of those finer comforts which in earlier ages were the exclusive prerogatives of a few.

Some writers, such as Aldous Huxley, for example, have questioned the benefits of our business progress and wondered whether it was not being accelerated at the expense of future generations. The population of the earth has increased two and a half times during the nineteenth century, but coal production has grown one hundred and ten times, iron eighty, cotton twenty, the volume of the world's commerce forty, and so on. But does this piling up of mass output mean a better civilization? These critics then quote Ben Jonson's observation that

> It is not growing like a tree
> In bulk doth make men better be.

Unless these mighty works of modern industry and managerial genius really contribute to improved comfort and well-being for masses of human beings, business cannot claim to have advanced in fundamental social value since the primitive days of the industrial revolution, but most assuredly the business world has awakened to a new consciousness of its responsibilities in that direction. Only in this way

can business play its part in restoring the fabulous losses of the war and the post-war economic chaos. For when all is said and done, as Herbert Hoover has so lucidly phrased it, "the finer flowers of civilization do not grow from the cellars of poverty any more than they thrive in the palace of extravagance. They grow from the bettering comfort and well-being of the whole of great peoples."

CHAPTER II

THE NEW INTERNATIONAL TRADE RIVALRY [1]

Is THE present international trade rivalry a menace to the world's tranquillity or a promising harbinger of restored economic health? Just how far has this struggle actually penetrated below the disturbed surface of post-war international agitations? With the gradual revival of commerce and the reappearance of many phases of the old pre-war struggle for certain preferred markets, there has been an increasing concern among many observers regarding the possibly ominous portents of this trend.

The events of the tragic decade following 1914 are gradually receding into a more understandable perspective. It is increasingly clear that, from an economic point of view, some of the grimmest episodes of that period came after the war itself was over, during the dark days of currency demoralization, widespread unemployment, famine and the chaotic confusion of more than one economic system. In view of the prominence of economic rivalries as a prelude to that decade, it might at first seem ironic even to question for a moment the futility of vigorous international commerce as a contributor to

[1] Reprinted from the "Century Magazine," June, 1928, by permission of The Century Co.

peace and good-will. Admittedly the steadily increasing intensity of trade "drives," of raw material concession hunts and of fervid rivalries for preferential consideration in many lucrative markets, contributed many irritants to the pre-1914 situation. Perhaps that explains why we revert to the terminology of battle in our present-day discussions of "tariff wars," "commercial conflicts," "embargoes," "economic hegemony," "industrial ententes," and such like.

Occasionally we still revive the antiquated concept of the world trader as a nondescript, denationalized rover, a more or less irresponsible, unscrupulous exploiter of defenseless natives, whom he stripped of everything except their souls—only leaving those so that the missionaries might have something to work on. But international commerce has certainly come a long way—particularly since 1921—from the old days of picturesque near-brigands, merchant-adventurers (with the accent on the latter "profession") and trader-conquistadores, even though the closing decades of the nineteenth century, and indeed the more recent years of the twentieth, have produced numerous instances of politico-economic drives for empire.

Perhaps these phenomena have not yet disappeared, but in any event the new day of international business is of a vastly different type. It involves, above all things, a determined effort on the part of business to rid itself of governmental controls and political manipulation. Abundant evidence of this came out in the discussions of the Geneva Economic Conference in May, 1927, and in the even

more emphatic pronouncements a few weeks later of the International Chamber of Commerce at its Stockholm sessions. The unequivocal recommendations of both these world-representative gatherings was that the time had come to modify the trade barriers set up by innumerable political devices, to relieve business of the impediment of excessive governmental controls and manipulations, and to make drastic inroads on the accumulation of old pre-war regulations, of still surviving war-time emergency restrictions and of post-war nationalistic excesses.

As we emerge from this turgid period it is evident that a new concept is dawning in the world of international business. It is reflected in the demands not only for relief from the pre-war dangers of the exploitation of trade rivalries by unscrupulous politicians, but particularly for a higher plane of foreign-trade ethics and the abandonment of the old ruthless policies. Of course, this change is not entirely altruistic on the part of business leaders. The victimizing of helpless natives on remote shores by roving traders is disappearing for the simple reason that the shores are no longer remote and the natives are far from helpless.

It must be frankly recognized that the new economic world which has risen out of the ashes of the recent past is vastly different from that of the mediæval days before 1914. The astounding improvements in methods of communication and transportation within the past few years, the magic of the radio, the bewildering advancement of aviation

and automotive engineering, the ever-widening network of international telephony, the indubitable contributions of the motion picture toward better understanding and the economies of the Diesel engine have obliterated most—though not quite all—of the ancient mysteries of the seven seas and have brought consumers and producers almost to each other's door-steps. The picturesque adventuring in search of far Cathay and the treasures of Montezuma and El Dorado and its attendant opportunities for undisturbed, high-handed domination over isolated trade areas have been rudely shattered by the sputter of the radio, the whirl of the motor and the clatter of the telegraphic key, which have made the spread of moments instead of months or years. The penetrabusiness information around the world a matter of tion of concrete highways through the remote fastnesses of Latin America, with the rumbling of mercenary fruit-trucks and mining machinery, may be obliterating the veils of fantasy around the Inca and Maya past. But the number of rebellions per capita (to put it statistically) is highest in those republics where the per capita mileage of such highways is lowest. Romance may have been driven out by the concrete mixer, but the mixer has paved the way for law and order and for better understanding, as well as better business among the far-flung provinces of these sparsely populated commonwealths.

Perhaps the glamour and picturesqueness have gone—though there might be some reservations on that point; but in their stead has come a conviction that the world of international business is, after

all, a vast, unified edifice, thoroughly utilitarian, but housing factors that are vital to the welfare of to-day's civilization. Its corner-stone is credit, which means confidence, which in turn means intelligent acquaintance and good-will; and, because of its unity, any disturbance, however distant, has instantaneous repercussions in commercial and industrial centers far around the other side of the globe.

Indeed, the leaders, not simply of business but of general public affairs, are appreciating to-day as never before the vital part played by the machinery of international credit as an assurance of mutual regard and public order. It is being more and more widely realized, therefore, that the world's recovery, politically as well as economically, depends upon the restoration of trade, the patient readjustments of the mechanism of business, the rehabilitation of buying power and the elimination of the old imperialistic trappings of politico-economic exploitation.

Almost equally important is the growing appreciation of the utter invalidity of the old "barter" conception of trade as a conflict of craft and sharp practices between two adversaries in which one of them was bound to lose. Because of the difficulty of attaining good-will in distant markets and of its great value once it is built up, international business recognizes to a peculiar degree the indispensability of mutual advantage for both buyer and seller. Furthermore, with the growing intensity of competition among sellers, the once defenseless overseas consumer is now in the position of strategic mastery, with rival producers catering to his every

wish. Last, but by no means least, there is the decided probability of mutual advantage as between these competitors, whose efforts to strengthen and capitalize the growing buying power of their new "prospects" ultimately redound to the benefit of every participant in the given market.

Of course, there can be no question as to the increasing intensity of trade rivalry, but it is well to appraise the situation calmly and without "viewing with alarm" on the one hand or flamboyant patrioteering on the other. Among the outstanding problems is the relationship of the continued expansion of American trade to the recovery of Europe. Has our rather spectacular rise since 1914 been made at the expense of our European rivals? If so, are we not planting the seeds of future discord and discontent, if not of more serious economic retrogression in the Old World? Might not this impair the rehabilitation of Europe's foreign trade which means so much more to her, relatively, than does the export commerce of our merchants to us? Just what contributions, destructive as well as constructive, has America made through her world trade expansion toward the rehabilitation of Europe?

In the first place, it is well to note that the enormous expansion of our importations of raw material, made necessary by the vast expansion of industry in this country since 1914, has been an indirect but invaluable contribution to the recovery of European export trade. If we consider our purchases from ten typical countries in Latin America and the Far East, which are the producers of such staples as rubber, tin, wool, tea, hides, and so on, it is revealed that

our importations from them have increased some 362 per cent. since 1913 as compared with an 85 per cent. increase in the sales of those same countries to the rest of the world. In view of the fact that these economically new lands are drawing heavily upon the Old World for manufactured commodities, it is evident that the stimulation of their buying power through the large expansion of our purchases from them has been a potent contribution to European commercial recovery. Furthermore, there are still very heavy European investments in all of these new lands, and consequently the increases in American purchases there immediately react in the dividends of European-owned corporations. Every ton of wool hauled across the pampas of Argentina on its way to the United States pays its quota of dividends to the British stock-owners who hold a billion dollars' worth of railways in that great commonwealth.

So far as the supposed bitterness of the rivalry between European and American traders is concerned, it is well to realize that each of these two great areas is the best customer of the other. The domestic exports (excluding reëxports) of five leading European countries to the United States have increased 44 per cent. since 1913, but their sales to the rest of the world have grown only 23 per cent. in that time; and when these figures are properly evaluated because of increasing prices, it is evident that the "growth" of European exports to non-American markets actually represents a decrease in volume, and that only the growing sales in the

United States have at least approached volume as well as value increases.

Let us examine for a moment that widely accepted impression regarding the "mortal combat" of American and European merchants for highly prized markets. Has our trade really been built up on ill-gotten wartime gains and on the ruins of the old trade edifices of European commerce? Nothing is more seriously misleading than the conception of any given competitive market as a rigid series of pigeonholes, each allocated to a given trading nation and each incapable of expansion without some loss to its neighbors. Markets are people, not places, and nothing was more clearly revealed during the world-wide upheaval after 1914 than the amazing elasticity of human wants, the profound alterations in living standards, the *variability* of the trade capacity of any given nation. These changes offer unlimited possibilities for the expansion of that part of trade falling to any given nation, without in the least impairing or affecting that of its supposed rivals.

And so, if we examine the growth of American exports during these recent years, it is revealed that they consist very largely of conspicuous American specialties, the demand for which has grown at an unprecedented rate with these alterations and improvements in standards of living. Our exports to the Far East, for example, have increased four and one half times since 1913, but that increase was in almost no particular gained at the expense of Europe. The items that entered therein were such American specialties as automobiles, tobacco, mo-

tion-picture films, ready-made clothing, road-building machinery and the like. This trade was almost unknown before the war.

When our British friends express alarm over the fact that we are to-day supplying 22 per cent. of Australia's total imports as against 11 per cent. before the war, their fears can be immediately calmed by pointing out the fact that item by item this new trade is made up almost entirely of these American specialties and that British trade has scarcely been restrained thereby in any respect. In fact, England's total sales in Australasia were nearly $400,000,000 in 1927, as against $227,000,000 in 1913. Even with liberal deductions on account of price changes, this leaves a substantial margin of actual volume increase. Even more significant is the fact that this represents a larger *proportion* of England's total trade than ever before—namely, 13.36 per cent. as compared with 8.7 per cent. in 1913. In other words, Britain's trade with Australasia will grow with the continued expansion of Australasia's rapidly growing buying power and with the increasing ability of British industries to meet its demands. American exports can develop side by side with this trade between the mother country and the sturdy new commonwealth of the South Pacific without ominous consequences to either.

To take a Latin-American illustration of the same phenomenon, our sales to Venezuela and Colombia have risen from about ten millions before the war to more than eighty-three millions in 1927. European alarmists and Latin-American agitators have pointed to this as a clear indication of "economic hegemony"

on the part of the "great colossus of the north," the ruthless absorption and monopolization of lucrative southern markets at the expense of the sorely tried business men of the Old World. But on closer scrutiny it is revealed that Europe's exports have also shown substantial increases in these same markets—that Germany's sales to Colombia, for example, are now three times what they were in 1913 and those of England more than double their prewar value. Once again it is evident that the cause of our advancement has been the impressive growth of the oil industry, the fruit and coffee plantations, and the other undertakings to tap the vast resources of those republics; and in the resultant improvement in buying power, the trading nations of the Old World have had a liberal share of profit.

An interesting phase of this whole situation, and one which is materially contributing toward an even further lessening of any possible dangers from these economic rivalries, is the international character of business itself. The export trade of the United States is not necessarily the export trade of American merchants. European capital still has a most substantial stake in this country; in certain fundamental export staples, notably petroleum, a substantial part of our total exports comes from European properties within this country. The same is true of some of the exports of European nations. Our investments in the Old World have risen from less than $500,000,000 to about $4,500,000,000 since 1913, and a substantial proportion of this is represented in American ownership of factories whose products find lucrative markets beyond the countries where

they are domiciled. Canada is beginning to figure as an exporter of automobiles, particularly to other parts of the British Empire, where she enjoys imperial preference under the tariffs; but the bulk of the Canadian automobile factories are owned by and operated with American capital and are heavy consumers of supplies, accessories and parts imported from the United States.

International trade is, then, no longer capable of simple classification according to countries of origin; the actual ownership of the business involved and a substantial proportion of the profits accruing therein may have a very different nationality. The British, whose total foreign investments exceed twenty billion dollars as compared with about thirteen billions of our own, have long appreciated this factor of the dual or multiple nationality of any given transaction in international commerce. Indeed, it was one of the foundation stones of England's international economic edifice. With such large and rapidly growing interests in foreign lands, the appreciation of the value of orderly relations and general tranquillity becomes steadily stronger among the world's business leaders. Far-flung enterprises of such vast proportions could view with nothing but gravest alarm a possible disruption of peaceful traffic and of international good-will.

There are other phases of this new internationalization of business that evidence the longing for mutually beneficial understanding and the elimination of hostility. The development of the international cartel movement arises from the appreciation of a community of interest among a dozen or more

Old World industries and of the disasters coming in the wake of excessive trade rivalries. Although there were instances of such international combines before the war, the movement has taken on a decidedly new form and vigor since 1921. It is still very much in the experimental stage and has by no means come up to the expectations of its promoters in contributing toward commercial peace in Europe. Nevertheless, there can be no question that the cartel is at least a moderate improvement over its possible alternative, ruthless competition, especially with reference to intra-European trade, which, after all, represents by far the bulk of the commerce of the nations involved. Germany, for example, which has been the leader in this development, depends on her European neighbors for at least 75 per cent. of her trade, just as she did in pre-war days. It has therefore been of vital importance to her to put an end to the excessive nationalistic commercial warfare which followed the armistice, and to obliterate or modify at least a part of the trade barriers that rose not only along the older frontiers but along the five thousand miles of new national boundaries erected by the Treaty of Versailles.

There are many dubious aspects to the cartel movement, especially from the American point of view, but from the European it can at least be recognized as having made a contribution to the cure of post-war economic hysteria. And, incidentally, as long as our exports to Europe are so very largely of non-manufactured staples, notably cotton, petroleum, copper, tobacco and cereals, these efforts toward industrial understandings will not affect the bulk of

our exports to the Old World, even though they may impair some operations of our moderate but gradually growing sales of manufactured goods across the Atlantic. It is in their repercussions upon our domestic trade and our heavy fabricated exports to Latin America and the Far East that the cartels are likely to present serious problems to our merchants and manufacturers.

Another phase of these international trade rivalries is the inevitable tendency toward preferment within colonial and imperial groups for the products of their various members. This is a universal policy and one to which the United States can, of course, take no exception, since we follow it ourselves. Nevertheless, the continued vigor with which it is being pressed has in some instances involved discriminatory practices which, to say the least, are not likely to make for international good-will and friendly understanding.

In the last analysis, international trade under these newer and vastly changed conditions has become an invaluable contributor to good-will and sobriety in world relations. There will obviously be continued rivalry for preferred markets, but the resultant struggles need by no means involve mortal combats. In his vivid description of the critical period of American history during the dark days of the Confederation, 1783–89, John Fiske has epitomized a situation among the thirteen States of the new republic which was not unlike that in the world at large immediately after the World War. He dismisses the usual sordid post-war bickerings as the

"unspeakably stupid and contemptible local antipathies" which are the perennial sequences of every period of warfare; "but the only thing which can finally destroy them is the widespread and unrestricted intercourse of different groups of people in peaceful social and commercial relations. The rapidity with which this process is now going on is the most encouraging of all the symptoms of our modern civilization."

The friction of the world's market-places may strike some sparks, but thereby are being forged the links of those lasting bonds which evidence the economic interdependence of nations and are the solid assurances of mutual esteem and good-will. They are among the most invaluable stabilizers of modern civilization.

CHAPTER III

THIS DRAMATIC DECADE

One of the tourists' sights of sleepy Seville is the sprawling old fortress-like tobacco factory, the scene of the adventures of Mérimée's immortal *Carmen.* But, though much of the haughty old Andalusian capital has remained unchanged through the centuries, the interior of this ancient landmark is not what it used to be in the days of the dark-eyed señorita of operatic fame. The transformation which has gone on within those hoary walls is indeed one small episode which illustrates much that has happened throughout the world of business in these past ten years. In fact, the interest of that episode, though of an entirely different category, is in a way no less dramatic than the fantastic imaginings of the great French writer as he depicted the same scene many years ago. To-day as you approach the grim entrance of the old building you hear the clatter which sounds like the castanets of old, but on penetrating to the vast dim interior you find, instead of the endless rows of swarthy Sevillanas glancing out from under their pink garlanded locks, there are seemingly endless batteries of compact-rolling cigarette-making machines from Cincinnati, Ohio.

Verily, the days of romance seem to be over. Even the genius of a Bizet would have difficulty in weav-

ing an aria about such soulless mechanisms, which reel out a hundred times as many smokes as the deft fingers of a dozen *Carmens*. And if the great Frenchman were to return to his old haunts a few months hence his soulful emotions over the leisurely charm of Andalusia would be reduced to speechless amazement by a noise even more appalling than that of these chattering Cincinnati "mechanical Carmens"—the roar of the big dirigibles of the Seville-Buenos Aires lines, a direct heritage of the astounding wartime achievements in aëronautics.

The war had no patience with picturesque antiquity. It swept out with remorseless strokes the leisurely old-fashioned ways and commandeered the efforts even of pretty cigarette makers in neutral Spain. This little event in economic evolution, or rather revolution, on the banks of the Guadalquivir —the mechanization of an ancient industry and the swift space-annihilating magic of air transport— depicts in a small way the whole of the chaotic post-war industrial upheaval.

The purpose of warfare is destruction, and the recent holocaust fulfilled that objective with ghastly completion. But at the same time, with every such bloody conflict in modern history, in spite of all the losses of priceless man-power and materials, there has been a clearing away of much that was old and obstructive in the sluggish currents of industry and commerce. The superhuman efforts incident to all such conflicts have invariably produced new devices and operations, have set in motion hitherto unknown or dormant forces, which otherwise have been un-

stirred for decades. As was pointed out above, it was the great and compelling need of the Napoleonic struggle which stimulated the industrial revolution, not of course in its early origins but certainly in its rise from infancy to the full stature of maturity as the factory system. The maw of war was beginning to develop its insatiable appetite, the gratification of which demanded the complete transformation of industry throughout the Old World.

The almost unbelievable magic of industry during the truly incredible decade just past has been so continuously amazing as to lead the more inexpert bystander to be ready for almost anything in the field of material achievement. The world of business has been linked together by new meshes of intimacy which have pierced the age-long barriers of estrangement and suspicion and have drawn together hitherto remote peoples and resources and markets in a manner entirely unmatched not simply in any previous decade but in all the centuries of recorded economic history.

These triumphs of aëronautics and of the radio, of wireless telephony and electrified traffic, of automotive transport and synthetic chemistry, found their origins very largely in the truly dazzling succession of experiments and widespread frantic efforts under the grave pressure of wartime necessity. In fact, our chemists and engineers appear to be the lineal heirs of those feared imps of black magic in the Middle Ages, notably in the matter of retrieving hitherto waste materials, which seems somewhat ironic when one considers the ghastly wastage of war in general. The grinding up of old piano boxes into hosiery, the

extraction of fertilizer from the air, of gasoline from shale, and rubber from dozens of hitherto ignored or scorned shrubs—all these feats of technical legerdemain have inevitably compelled the mere normal mortal to believe almost anything about the potentiality of industry.

This creative phase of the post-war period has been so utterly unusual and unreal that the actuality of the advances made by industry as depicted in cold figures and the tremendous obstacles that have been overcome are by no means fully appreciated. The prodigious productive forces in industry let loose during the struggle exhausted some, but by no means all, of their momentum during the months immediately after the armistice. Then the world of business staggered down into the dark pit of 1920–21, from which it emerged at first with painful discouraged exhaustion, followed by strengthened determination. The story of that descent into the abyss of deflation, of shattered currencies, foreclosed farms, jobless millions and gaunt silent factories has been more than matched for dramatic quality and sound economic interests by the subsequent marshaling of the costly lessons of the war, the new exploitation of military inventions and processes, of mass production methods and, above all, of general collaborative efforts in trade and industry.

The roots of many of these astounding accomplishments of the latter half of this decade reach back to numerous wartime precedents. Once more have these eventful years demonstrated—but this time more picturesquely, more forcefully than ever before—that fact which has stood forth after every

great disaster of modern times—namely, the human animal's truly extraordinary powers for recuperation. It is this mighty force that has made of these ten dramatic post-war years the incredible decade.

This story, from the point of view of business, falls, of course, into two broad categories—the changes in the production of goods and those in the methods and facilities for their distribution. We come, then, to the first of these—namely, the changes that have been wrought in the status of manufacturing, mining and agriculture, the major branches of production.

After such an appalling world-wide holocaust it would have been reasonable to expect—indeed, it was sadly predicted after the armistice—that a generation or even two would elapse before the pre-war levels of productivity had been regained. And yet, what has actually been the case in almost every major branch of production, the 1913 level has been reached and in many respects far surpassed, notably in the new war-born industries or those vastly altered by war methods.

The geographic distribution of industrial gains reveals the advance of non-European countries, which obviously have had to make up for the deficiencies of the war-torn motherlands of the Old World. European output in 1925 had just about reached the 1913 volume, whereas her trade was still about 10 per cent. short of pre-war levels, though this deficiency has since been made up. The enormous expansion of manufacturing overseas in areas once dependent upon Europe accounts for much of this

situation. The newly awakened nationalism of Asia and Australia, the isolation of those lands and the Americas, these factors have all inspired the widespread industrialization which has been so conspicuous a feature of their economic development since the war. Certain aspects of this post-war industrial development are worthy of special attention. In the first place, the resultant upward trend in living standards has stimulated a demand for better quality products. In the world-wide distress of the textile industry, for instance, there is evident an unmistakable tendency from cottons to silks for garments, and within the cotton crop from the lower to the higher grades. The manufacturers of the latter are in distinctly better position than those of the former. The woolen industry both in Europe and America is using finer qualities of raw material, more merinos as against cross-breeds, according to a survey of the League of Nations in 1927. The demand for poorer qualities of dyes has fallen off to such a degree as to bring the gross output of coal-tar colors nearly down to the 1913 volume, but in values the figures are far greater to-day because of the predominance of better grades.

The wartime developments in the field of communications, notably the radio, have released a host of new inventions applied to amusements as well as industries, and living to-day for the average family is thus made more comfortable. The pouring of nearly four billions of American capital into Europe since the armistice has taken the form not of so many tons of gold or packages of securities, but rather of electric lights, gas stoves, household appli-

ances, running water, modern plumbing and countless appurtenances that go to make for more comfortable living. Even the old idea that you cannot teach old stomachs new tricks has been completely repudiated as one incident in this transformation. The presence of two million sturdy young Americans for many months on the Continent and their annual successors, the more peaceful invading armies of tourists—some 460,000 in 1928—have left a train of demands, backed up with dollars, for many minor comforts whose introduction has not in the least destroyed the romance and picturesqueness of European travel (as some of our mournful cynics would have us believe), but has, on the contrary, been eagerly accepted as part of the new day by recovering Europe.

Two factors affecting this shift in the Old World to better qualities of staple products and new types of many products are the great advance in buying power and living standards in the United States which is exerting a potent influence upon European business and living conditions. Secondly, numerous older European industries turning out certain time-honored rather low-grade staples have suffered severely in the decline of their export trade to certain areas, particularly large consumers of these low-priced wares. Among these lost or retarded outlets for cheaper goods are Russia and the Orient, the former because of her general economic chaos and the latter because of new native industrialization, notably in China, Japan and India, as well as of profound civil disorders in the first of these three. Of necessity, therefore, European producers of many

lines of textiles and various iron and steel wares have been forced to divert their attention to better grades salable in other and higher quality markets.

Three basic industries have undergone especially trying seizures of readjustment throughout the world during this eventful decade—namely, fuels, iron and steel, and ship-building. The hardships in these major fields have been felt in varying degrees by every participant in them, but particularly by England because of her predominant dependence upon them. Coal paid the freight on most of her exports. It was indeed the backbone of her whole oversea trading strategy. The world-wide shift, therefore, from that fuel to oil and hydroelectric power, involving as it did drastic curtailments in such once lucrative coal markets as Italy and Latin America, shattered not simply one of the major items in her sales abroad but also indirectly crippled her competitive powers in many other commodities the freight bills on which were largely borne by her coal shipments.

The development of Diesel marine engines, so conspicuous in the new merchant fleets of Germany and Italy, and the vast expansion of automotive traffic have transformed transportation around the globe, with consequent dislocations of much merchant tonnage and drastic modifications of railway expansion, especially in "new" lands overseas, all of which has reacted, of course, upon the production of iron and steel in many older strongholds of that industry. But, it has been pointed out in the memorandum on production and trade prepared by the League of Nations for the International Eco-

nomic Conference in 1927, the effects of these readjustments were more than counterbalanced by the amazing growth of those industries which were especially stimulated during the war, including electrical engineering, motor and rubber industries, tobacco products, chemicals, newer types of fabrics such as artificial silk, etc. The mere enumeration of these once more indicates the lift in the buying habits and living standards of the world's consumers.

With this world-wide transformation in production, it has been inevitable that the most rapid strides have been made by lands overseas which, during their prolonged wartime isolation from their former European sources of manufactures, were forced to develop industries of their own. These their governments promptly favored, after the war, with higher tariffs and other protective devices, in which, of course, they were greatly encouraged also by the collapse of European currencies, that threatened even further inundations of shipments from the Old World. It is not surprising, therefore, to note that over sixty countries have raised their tariffs since 1918. Although Europe has recuperated, these developments in distant lands have greatly modified her relative position in production. According to the British economist Loveday, the share of the Old World in pig iron output has fallen from 58 per cent. to 47 per cent., of steel from 56 to 46, of coal from 51 to 47, of machinery from 47 to 38, and in the consumption of raw cotton by her mills from 53 to 41.

Clearly her day of supremacy in the field of industrial production is on the wane, so far at least as

sheer predominance in volume is concerned. She will undoubtedly continue to excel in many lines of fine specialties, those products of her ancient crafts whose age-long skill and artistic dexterity date back to the guilds of the Middle Ages. But even in those specialized fields the heavy casualties of expert artisans in 1914–18, who were peculiarly needed in such a mechanized warfare, wiped out the most valuable single asset which many European industries possessed.

Of course, there were countless other elements of loss in Old World industrial areas apart from the obvious one of devastation of material and of men. There was, for example, the serious crippling of native capital supplies. British experts have estimated, for example, that the "proportion of the total income of their country which is set aside as savings has fallen from 16 per cent. before the war to 12 per cent." The orgy of currency inflation made a farce of savings and turned all available funds immediately into fantastic and abnormal purchases of new plant equipment and other capital goods. This efficiency was, of course, created in part by heavy borrowing from the United States. Our total capital now at stake in Europe (exclusive of government war debts) is about $3,800,000,000, of which about $1,300,000,000 is in Germany, $450,000,000 in France and $350,000,000 in Italy. These vast advances have beyond doubt been among the major elements in the reconstruction of industry on the Continent.

A word or two with regard to the changes in some of the major industries throughout the world might

not be inappropriate. The outstanding feature in the production of pig iron and raw steel upon which so large a proportion of the rest of the industrial structure is founded was its geographic redistribution rather than any basic revolutionizing changes in processes. As a result of these changes Germany lost 76 per cent. of her sources of iron ore, as well as important elements in the industry located in Alsace-Lorraine and Silesia. The Austro-Hungarian iron and steel industry was split up in a number of the succession states. The productive capacity of output of the French industry was doubled. The Belgian, Luxemburg and British industries were substantially aided during the crucial opening years of this decade by heavy reparation payments in the form of coal and other products. These complete reallocations of facilities brought about a readjustment of markets and occasioned the reëntrance of virtually the entire European industry into intense competition. The outcome was the establishment of the Continental steel cartel and the restoration of an earlier European combine for the joint marketing of rails. These were but the high points of a series of international mergers and coördinating organizations the original objective of which was ostensibly the elimination of disastrous cutthroat competition, but which has also shown certain direct competitive efforts against the American industry.

There have been numerous technical developments of interest, among them the efforts to produce steel directly from iron ore without the intermediary vehicle of pig iron; the experimentations with deposits of iron sands in Japan, which, if successful, are

likely to have a material effect upon the possibilities of the industry in the Orient; new economies in the production of cast-iron pipe by resorting to centrifugal casting; numerous advances in the technique of the rolling of steel sheets resulting in the production of lighter steel frames with great economy; and the consequent development of light structural shapes suitable for use in the building of ordinary dwellings. The decade has also seen the widespread employment of numerous ferro alloys such as stainless steel for cutlery and copper-bearing steel for use in rust-resistant materials.

On the distribution side the industry has been profoundly changed. Hand-to-mouth buying has largely taken the place of long-term contractual consumption. As a result, distributing warehouses are becoming more and more a thing of the past. In other words, the producer-to-consumer chain has lost several links. Finally, the entire period has been characterized by intensified rationalization in the industry throughout the world. This has involved the application of American ideas and of efficient production in other lines.

The pressure of intensified competition, especially from new plants in such territories as India, China and South America, has made it urgently necessary for older organizations in Europe, particularly, to avail themselves of every possible economy. The result has been a greatly widened market for American steel mill equipment and an increasing demand for American-trained engineers.

The alinement of the various iron and steel producers has undergone a considerable shift in so far

as their export activities are concerned. The United States, although easily the largest producer of steel in the world, stands only fifth in the list of exporters. The leading nation in the field of foreign trade in this major staple is France, due largely to the great acquisition she has made in iron and steel producing territory through the treaty of peace. She is followed in succession by Germany, Great Britain and Belgium-Luxemburg. In each of these European countries there is the heaviest kind of pressure upon the industry to carry on extensive export sales because of the excess capacity far beyond domestic needs. France, for example, must export between 40 and 60 per cent. of its output in order to carry on an effective and profitable iron and steel industry. In the cases of Germany and Great Britain, the export percentage must be between 20 and 35 and for Belgium-Luxemburg the foreign sales must run from 60 to 75 per cent. of the total output.

The export specialties of the United States in this important field are tinplate and rails. American rails, the bulk of which for export purposes are made in Birmingham, carry the street-cars of Spain; they link mines with seaports along flanks of the Andes in Chile and Peru; they are laying the way for an extensive industrialization program now being launched in Manchuria.

As a typical illustration of the world position of the trade in the more elaborated iron and steel products, we may review briefly the position of the machinery industry. According to data laid before the International Economic Conference at Geneva in 1927, the United States just before the war

supplied 50 per cent. of the world's output of all types of machinery, except boilers and electro-technical, whereas in 1925 our share was slightly under 58 per cent., showing that we are more than holding our own. The situation has not changed materially in the last few years. As a gage of the advance of the industry as a whole, it may be noted that the value of output in this estimate was indicated at $3,200,000,000 in 1913, and on the basis of 1913 price levels the output in 1925 was 3,500,000,000, showing that the industry as a whole already has advanced beyond the pre-war level. It must be noted, however, in this connection that Germany was still slightly behind her 1913 portion in 1925; she has, however, since then regained the intervening lost ground.

In this connection there is one very interesting comparison of the world consumption of machinery per capita of population which brings out vividly the vastly greater proportion of the use of mechanical appliances in this country. This is due, of course, to the excess quantity of available manual labor in the Old World; but the great preponderance of America's application of machine power is very striking. The figures for the United States were $15.11 of machinery used per capita of population in 1913 and $23.66 in 1925. The comparable figures in Europe for the latter year were $10.19 in the case of Great Britain, $8.62 for Germany, $3.45 for France and $1.02 for Russia. Canada is, of course, almost on a parity with the United States, with $23.44 worth of machinery for every citizen in 1925. But, aside from our northern neighbor and ourselves, the rest

of the world is "nowhere," the nearest being Australia with $11.07.

Still another interesting angle in this factor of the truly prodigious harnessing of machinery in this country to lift the burdens from arms and hands is the value of machinery produced per workman. These figures reveal an interesting relationship between wages and production. The higher paid workman more than justifies his income. In the United States the output in machinery per worker in the machine building industries was $5192 in 1925, with Canada second with $4225, but thereafter is a long gap until Australia is reached in third place with $1800, Germany following with $1527, France with $1459, Great Britain with $1432 and Japan with $1085.

The unsatisfactory conditions prevailing in certain important branches of the textile industry in the United States have indeed been typical of the world situation in that important field. There are few industries which have been more profoundly moved by the war and post-war dislocations. Indeed, our hardships in this particular have been much less severe than those of other countries because of the relatively greater efficiency of production and of our distributive system. The plain fact of the matter is that the per capita consumption of fabrics and clothing is less in actual yardage and in value than it was fifteen years ago. Then, too, there has, of course, been enormous increase of spindlage in hitherto exclusively consumer countries.

One of the outstanding textile developments has been rayon production, practically unknown before

the war, which has risen to one of the major elements in the textile trade in the more advanced consumer countries. The production has jumped within this decade from 30,000,000 pounds to practically 350,000,000 pounds for 1928, with the United States supplying about one third of the latter figure. Curiously enough, this enormous consumption has not had any serious effects upon the silk and cotton manufacturing industries in this country. Indeed, the developments that have taken place in the line of mixtures of rayon with other fibers have made the latter an admirable adjunct to both silk and cotton production and have greatly enhanced the sale value of these two long-standing staples. Consumption for the world has risen from 21,000,000 bales in 1913 to 25,900,000 in 1927. Even more impressive has been the increase in silk production, which rose from an average of 56,300,000 pounds during 1909–13 to 102,200,000 for 1927.

An interesting factor connected with the development of the industry in this country is that it is largely owned or controlled by foreign capital. The industry as a whole, in fact, is about as closely knit on international lines through cartels, interlocking directorates, etc., as any of the leading staples in world trade.

In some respects the major industrial development so far as entirely new contributions are concerned in the whole field of manufacturing during this post-war period has been the amazing growth of the chemical industry. Before the war Germany was unquestionably the leading figure in this field, with the United States, Great Britain and France following

in that order. The great difference between the present situation, however, and that which pertained before the war is that each of the major nations (and in fact every commercial and industrial country of any consequence) is keenly conscious, as a result of wartime emergency developments, of the absolute necessity of having well-developed self-contained chemical industries if the safety and health of the nation is to be assured. In fact, commodities in this field for that reason figure conspicuously in the actual treaty of peace, which among other matters carefully specified the regulation of exports of various German chemicals, notably under the payments of reparations in kind. The development of the whole system of so-called safeguarding of industries in Britain, as well as corresponding tariff systems in other countries, has been centered about the careful stimulation of native chemical industries.

The outstanding aspect of this has been the establishment of atmospheric nitrogen plants, in most cases with governmental encouragement through subsidies and in other forms. This element is, of course, an indispensable factor for agriculture as a fertilizer, therefore affording an invaluable stimulation of home production to alleviate undue dependence upon foreign foodstuffs; and it is also of vital importance in the manufacture of high explosives, thus conspicuously figuring in all defense programs.

Although Germany has had the reputation of being preëminent in chemical matters and has indeed since the war once more taken the premier post in international trade in this field, nevertheless the

United States produces and consumes more chemicals and related products than any other country.

Germany's advance as an exporter in this field has been truly astonishing since 1925. Her chemical exports in 1927 were $300,000,000 as compared with the United States, which stood second with $200,000,000, and England third with $140,000,000. So far as the world trade position in chemicals is concerned, Germany owes her preëminence largely to her heavy shipments of fertilizers, especially potash and nitrogen, industrial chemicals and coal-tar products. One interesting side-light on this truly amazing increase of her shipments of chemicals has been its effect upon her trade balance, which is, of course, of paramount importance in the adjustment of her reparation obligations and the continued stability of her currency—factors reacting directly upon the economic fabric of the whole of Europe.

In pre-war days Germany imported about forty-one million dollars' worth of nitrate of soda from Chile. This item on the debit side of her ledger has entirely disappeared and in its place there has developed on the credit side an export of synthetic nitrogen which amounted to fifty-four million in 1927. The turn of the scales by that margin of $95,000,000 has had a potent effect in the general strengthening of Germany's position in international economic affairs and has contributed very substantially toward her present ability to bear the $625,000,000 annual reparation payments.

The converse effect upon Chile was, of course, disastrous. The loss of the German market, which

was second only to that of the United States, played havoc with her major industry and with the many phases of Chilean economic life dependent thereon. Among these phases was the fiscal system of the National Government, which has drawn a very considerable proportion of its revenue from the export tax on nitrate. The impairment of this trade by the increasing competition of synthetic nitrogen resulted in a frantic renewal of the governmentally sponsored producers' association. This organization has had a series of racking ups-and-downs during the past ten years and has only recently begun to emerge from despair as the result of the application of new economies developed by an American-owned plant in the Chilean field.

The advances of the electrical industry since the war match in many respects the astonishing achievement in chemical production. Diversion to peaceful uses of electrical devices developed in wartime, the interruption in coal production resulting in exploitation of hitherto latent hydroelectric power, and the world-wide urge for national industrial self-sufficiency have all played a prominent part in driving electrical production forward at an almost unbelievable rate. Before the war the total value of world production of electrical goods was about one billion dollars; to-day the figure exceeds three billions, which, after allowances made for price changes, still leaves the total volume of production at double that of 1913. Before the war Germany was in first place with about one third of the total production, but to-day the United States leads with almost 50 per cent. of the total world output. Germany is sec-

ond with about 25 per cent. and Great Britain third with about 12 per cent., followed by France with approximately 5 per cent. One interesting indicator of the advancing relative importance of the industry is brought out in the per capita expenditures in various countries on electrical progress. According to estimates by experts in connection with the International Economic Conference at Geneva in 1927, such expenditures in the United States in 1925 amounted to $14.40 for every inhabitant, as against $3.35 in 1913. It is worth noting that this 1925 figure far exceeds that of any other nation (New Zealand is second with $8.67 and Germany third with $7.05), but in pre-war days, on the basis of per capita expenditures, Canada stood first with $3.75, Germany second with $3.67 and the United States third with $3.42. The ascendancy of electrical consumption per capita in this country certainly stands out as an indicator of the greatly advanced standard of living and improved working conditions both for factory laborers and for women in the homes.

Another index of similar significance is that indicating the generation of electric energy in billions of kilowatt-hours. Here again the figure for the United States stands out in isolated supremacy. In pre-war years it was 14,400,000,000, but by 1925 it had risen to 65,800,000,000 and in 1927 it was 80,200,000,000. The rest of the world was once more "nowhere in sight."

From the point of view of American industrial development, this application of more power accounts in large part for the increased per capita

production of manufactured goods. Of course, improving efficiency of workers and of plant arrangement also figure in this result.

There are numerous other phases of production problems which would merit careful analysis if space permitted. One of these must at least be mentioned briefly—namely, the world-wide development of scientific management. The practice of more orderly organization of factories for the purpose of eliminating wasteful operations and processes has long roused the attention of industrial leaders in the United States, but the Old World, with its abundance of cheap labor, was not under any such pressure for economies.

After the war, however, the perplexing problems of economic rehabilitation and the woeful contrast between American and European advancement during the crucial years of readjustment roused world-wide interest in these problems of management and waste elimination. This interest found expression in the gathering of the first International Congress on Scientific Management at Prague in 1924, followed by a similar session in Brussels in 1925, and one in Rome in 1927. The problem was actively discussed at the Geneva Economic Conference in May, 1927. Indeed, the broad theme of American "rationalization" ran through nearly all of the sessions on industrial topics. As one outcome of this interest in the subject throughout industrial circles in the Old World, there has gone forward a series of projects of standardization which bid far to break down one of the most harassing problems of intra-European trade. The old time excessive individualism of dif-

ferent plants, which made impossible any type of interchange of parts or accessories, has been very materially modified and in some important industries effectually destroyed. The standardization and simplification programs of the American Department of Commerce have been carefully analyzed by official and other experts from all of the European industrial nations, with the result that material headway has been made in the reduction of styles and types and consequent substantial savings.

However, with European specialization on artistry and design and individual creative effort, her industries will inevitably show much slower progress in this respect than was developed in the United States.

An important adjunct to the movement in the Old World has been the spread of international cartels, many of which are built around the idea of interchanges of patent rights, processes, expert personnel and other vital elements of their respective industries.

Throughout this whole epic of collapse and subsequent renaissance in industry one truth has dawned with unmistakable clarity—namely, that the talk of return to pre-war normalcy is but idle chatter. Though the levels of 1913 have been reached and in some cases passed, the struggle in the course of that attainment has evolved entirely new methods, new conditions and new results which have made utterly impossible any reversion to the industrial mediævalism of the pre-war years. The whole environment and standing of the business of factory production is vastly changed for the better. New

standards have been set for world collaboration through scores of technical conferences and councils, interchanges of experts and international gatherings of all sorts. These have marked a new spirit in the field of industry, which, though not entirely unknown in pre-war years, was in a far more primitive state of advancement.

CHAPTER IV

TRADE BARRIERS

NOT long ago, at one of the European custom-houses, the mummy of an Egyptian Pharaoh was presented as an "import" seeking admission to the country.

In the old valley of the Nile this monarch had held undisputed sway. He had sat enthroned in glittering magnificence. And when he left those scenes of earthly splendor his body had been embalmed in accordance with the secret formulas of the Egyptians; with all the mystic rites of Isis and Osiris the spirit of the Pharaoh had been sped on its way to that region which his mourning subjects believed to be the Kingdom of the Blest.

And now—torn away from the protecting rocks and transported to a distant country—"the buried majesty of Egypt" was confronted by the glowering customs officers. In the minds of those grim officials a deep perplexity prevailed. How should the one-time ruler of the Pyramids be "classified"? Into which of the many ingeniously complicated tariff classifications should this royal remnant fall?

Doubts developed. Brows were corrugated with anxiety. "Conferences" were held. Consternation threatened. But finally—Eureka!—it was all made

very clear. A solution had been found. The gates were opened and the mummy entered.

Imperial Pharaoh had been classified as "dried codfish"—and had paid duty as such!

That was a merely ludicrous incident, of course. We could hardly expect a government to provide a separate customs schedule for mummies. Nevertheless, the fantastic absurdity of the conclusion reached does point to one of the very real difficulties that have puzzled and pestered foreign traders in recent years—namely, the uncertainties, the needless complexities, of customs classifications and their glaring inconsistencies as between different countries.

We have it on the authority of the distinguished president of the International Chamber of Commerce, Alberto Pirelli, that in customs classifications false teeth find themselves grouped with field-glasses and microscopes in one country and with trunks in another. He tells us how, at one frontier, the fuel peat is classified with truffles, while at another it goes along with art works and pencils.

Such irrational classifications, and others that are not so utterly incongruous, may involve grave injury and time-consuming, perhaps even disastrous, irritation to American exporters. They may mean that American goods are unjustly placed in a class calling for so high a duty that they are practically shut out of the foreign market because their prices are rendered non-competitive or prohibitive. This certainly constitutes a trade barrier of no mean proportions—and one not contemplated in any legitimate protective policy. Needless to say, this has no reference to the general policy of tariffs, which

form a normal phase of international commerce quite apart from the extraneous annoyances and obstacles to which I am now referring.

Customs classifications may be not only confusing or absurd—they may be unduly specialized; or, again, they may be either openly or subtly discriminatory.

A classification was set up a number of years ago by a certain Continental country by which exceptionally favorable entry was provided for "large dappled mountain cattle or brown cattle, reared at a spot at least 300 meters above sea level, and which have had at least one month's grazing each year at a spot at least 800 meters above sea level"—all of which was just another way of saying "Swiss cattle." It was very much like saying that a social organization is "open to all comers"—provided such comers were born on the seacoast, can read Sanskrit, wear white spats and have a medium-sized mole on the left shoulder-blade.

Another variation of the same problem is the excessive intricacy of tariff structures. One European country has nearly 8,000 items in its customs schedules. Others seem bent on rivaling that record. And when exporters endeavor to determine where their goods should be classed or declared, to escape fines for improper classification, the consequent exasperation and damage to trade interests sometimes remind one of Ellis Parker Butler's famous story of the station-master who, in fixing the proper freight rate, was called upon (as he thought) to decide whether guinea-pigs were or were not to be classed as "pigs." Nature very soon overwhelmed him; he believed

that he had to do with a question of classification, but it proved to be a problem in multiplication.

To take one more example of such difficulties, some of our American west-coast exporters find themselves confronted with a perplexing problem in their efforts to ship to certain European countries. This question is: "When is a sardine *not* a sardine —and why?" Certain countries have declared that sardines of the principal class exported from the United States are really not sardines at all but a different animal and therefore must pay a duty about double that paid on fish of practically the same kind from the Mediterranean region.

This purely arbitrary discrimination means the loss of thousands of dollars' worth of business annually to certain California exporters; and it is based on obscure, minute scientific points that would not have the remotest interest for the foreign consumer—it is something to be mulled over only by experts in ichthyology.

One European country penalized American prunes by a high rate of duty, not to protect a native industry but solely because the quality grades were in cartons. This clean, sanitary, attractive method of packing, so distinctively American, caused them to be classed as a "de luxe" article, whereas the prunes in bulk from a neighboring country entered with the utmost ease; they came in bags, barrels, bales, or—judging from the animal content of some of them —were "driven in on the hoof," so to speak.

We don't have to search very far to find the original causes of most of these obnoxious trade ob-

structions. They are mainly the "spawn of Mars" —an ugly brood that sprang from the blood and ashes of the World War.

While that struggle was in progress, certain industries in each nation, under the furious spur of military necessity, waxed big—attaining proportions that proved to be merely bloated and dropsical when peace had been declared. A great surplus "producing capacity" existed, and, meanwhile, purchasing power had declined. Restriction of imports was an obvious measure for bolstering up an overdeveloped or uneconomic domestic industry.

Then, too, by the terms of the treaties, great empires were split up. Many new nations arose. Dislocation, confusion, bewilderment prevailed. A fever of nationalism burned with hectic intensity. Wartime rancors showed a lamentable tendency to keep on rankling. Fears persisted. Instincts of self-preservation found vehement vent. The spirit of newly acquired political independence was expressed in a desire for greater *economic* independence.

At that time many of the national currencies were indulging in a dizzy, delirious dive toward the abyss. With the export advantages that this currency depreciation gave them, some countries were pouring goods into their neighbors' markets at prices which the neighbors' industries couldn't possibly meet. Then, too, there were the depleted national treasuries, empty maws hungering for monetary nourishment.

Under such desperately perplexing conditions as these it wasn't surprising, perhaps, that such cries

should arise as: "Let's impose restrictions, import or export! Save our vital interests from strangulation! Promote national self-sufficiency."

These feelings soon took concrete form in a vast variety of arbitrary restrictions, discriminations and hampering formalities that impeded the normal course of international business. Foreign traders found themselves tangled up in a maze of red tape and mulcted through a mass of complex exactions. They were mystified and baffled in trying to conform to the multiplicity of weird requirements.

Gradually, however, the situation took a turn for the better. The post-war neuroses began to be allayed. Emotions and apprehensions subsided a bit. A clearer, calmer view commenced to be apparent. It was coming to be realized that in a good many ways these arbitrary restrictions were harmful not only to the general welfare but to the interests of the very nations that had so eagerly set them up.

The International Economic Conference held at Geneva in May, 1927, concentrated most of its deliberations upon this problem of trade barriers. The conference, in point of numbers, was not only the largest international gathering ever assembled there, with fifty nations represented by 197 delegates and 157 experts, but it was also one of the most frank and thoroughgoing in its discussions, because the participants were not impeded by any official instructions or similar limitations. The recommendations of the conference—and they could be nothing more than recommendations, since the organization was without powers to take any authorized steps—clarified

the issue by cataloguing specifically the types of commercial obstructions that still survive and the steps necessary for their modification.

In order to give force to these recommendations some thirty-five of the participating governments designated properly and formally accredited representatives, who sat at Geneva during October and November, 1927, and drew up a convention for the amelioration of import and export restrictions. This was the first of a series of such formal understandings which are to put into effect the resolutions of the conference. This convention has already been signed by twenty-seven countries, including the United States, with various reservations, mostly of a minor character.

From our point of view the convention is of unusual interest because the signatories are the customers for more than half of our exports and the source of over a third of our imports. Since we maintain no economic restrictions on our foreign trade, we stand to gain from their abolition by other nations. The one reservation made by our Government was in the case of helium exports, which was advanced for reasons of national defense. The convention establishes definitely a high-water mark of progress in the movement for the removal of artificial trade barriers, since it sets forth the widespread recognition that such prohibitions and licensing systems are the wrong method of controlling foreign trade. The renunciation of that principle has been a potent weapon in our hands in recent months in discussions with such governments as have been experimenting with various systems of trade quotas

and other types of limitations affecting seriously some of our major export items.

In view of the importance of this document, it would be well to review some of its leading phases. In the first place, it does not in any way affect or apply to import and export duties, nor the measures necessary for their enforcement. Nor does it involve restrictions relating to public security—those imposed on moral or humanitarian grounds, those regarding traffic in arms and munitions of war, those for the protection of public health, of plant and animal life (*cf.* our barriers to imports of Dutch bulbs, Argentine alfalfa seed, Spanish grapes and oranges, etc.), those relating to money or securities, and those aimed at foreign products whose native counterparts are prohibited as articles of trade and commerce (*e. g.,* liquor prohibition).

There are other encouraging sequels to the conference—for example, the gathering under the auspices of the League of Nations of economic experts from various countries, including the United States, who are engaged in clarifying and unifying international customs procedure, statistical classifications and nomenclature. The American delegation at the conference in May, 1927, took the initiative in urging these most necessary reforms. We happened to be in a strong position to do so, because our practice in those respects has been regarded as one of the best of the larger commercial nations. Our customs classifications, for example, consist of some 705 items as compared with several thousand (in the case mentioned above, nearly eight thousand) in some foreign countries—a situation which is enough

to drive any would-be exporter almost to frantic despair in his endeavors to fit his commodity into the proper classification, especially when he is confronted with the probability of a heavy fine if his decision should not be the correct one. Then, too, our classifications of official foreign trade statistics are recognized to be of more immediate practical value, particularly because no elaborate procedure or formal Congressional action is required to alter the statistical grouping, if trade needs so require. In the majority of other leading commercial countries, such changes can be accomplished only with lengthy, elaborate parliamentary procedure.

The outcome of succeeding conferences on statistical uniformity, customs procedure, etc., will be awaited by the business world with the greatest interest. Exporters are unanimous in their indignation over irritating survivals of wartime and post-war emergency practices in these comparatively routine phases of their operations. For one thing, the lack of comparability of trade figures is not merely exasperating to a few college professors, but is gravely obstructive to the smooth course of international trade. In these days of tightening competition some uniform measurements of trade flow are indispensable. This means at least approximate parity of grades, nomenclature and classification.

Nor is it solely to oblige the research department or the sales force of a given export house; even the exalted moguls of the production and engineering branches have a vital interest at stake in this issue. Take automobiles. There are sixteen different types or bases of classification in as many different coun-

tries in Europe for this commodity, whose exports from the United States to Europe totaled $112,000,000 in 1927. As the American manufacturer makes his plans to enter each market successively, he is confronted with the necessity of varying the type or weight or horse-power or other detail in his product in order to meet these requirements in each individual case. In less expensive units, such as electric motors, the case is even more complicated and involves a highly technical and careful appraisal of each situation. This condition obviously works hardship upon the European consumer, who is thereby deprived of those benefits of mass consumption which are so conspicuous an element in the strength of our trade and industry. In these days of waste elimination, economies and standardized mass output, such a network of barriers cutting up and specializing what would otherwise be a more or less unified market area means simply greater production specialization and consequently higher costs and slimmer sales.

There is, of course, the further necessity of speeding up international figures; and they are likely to be materially expedited if applied on a simplified uniform basis. This subject has long been before the international business world. Some attempts were made toward its solution at a conference in Brussels in 1913, where agreements were reached among the principal European and American nations, exclusive of the United States, calling for a type of uniform statistical classification. The arrangement, however, apparently was premature and has never been very widely accepted. It was neces-

sarily general in character and seemed to be a rather colorless compromise, with a noticeable lack of detail as to manufactured articles. The work recently undertaken at Geneva on this task has the powerful incentive of far greater necessity than was the case at the time of the Brussels arrangements. It is also needed because of the much more widespread interest in export which has developed in all parts of the world, and there is every reason to believe that the arrangements arrived at will be practicable and put into application at an early date.

With reference to the improvement of customs procedure, fortunately, the deep drifts of documents through which the harassed exporter had to plow his way, in the years immediately after the war, have now been considerably melted down by the sunshine of better feeling and better business. There was no question as to the necessity of such documentation during the crucial years immediately succeeding the armistice; in the first place, each of these documents meant a fee to some famished exchequer, and one can understand, therefore, the mounting pile of blanks, declarations, questionnaires, vouchers, and what not, which confronted each shipment as it made its costly way across each border. But with the improvement of conditions, and particularly with the restoration of the currencies, the dependence of the war-shattered older governments and of the ravenously hungry newborn ones upon such emergency revenues gradually lessened. Their general fiscal position became less desperate so far as immediate temporary needs were concerned, and they could then take a longer view

toward the development of substantial industrial and commercial promotion as the basis of their enactments rather than the drastic imposts of the years immediately preceding.

Then, too, their violent post-war fever of nationalism—that invariable sequel of every great war in modern history—was dying down, and, with the restoration to relative economic and political health and sobriety, there has come a recognition of the mutuality of interest among the Continental neighbors, with a consequent lessening of some of the more arbitrary and obnoxious customs requirements.

Currency stabilization has been undoubtedly the largest single contributing factor in the progress toward the elimination of the trade barriers. These dikes were set up along every frontier to block the uncontrollable tides of exports which, as I have indicated, were being poured out on waves of inflated paper money, inundating large parts of the Old World during the trying times of the post-war depression. Currencies of some nineteen European countries were but 58 per cent. stable in 1922; but the figure had risen to 97 per cent. in 1927. This explains the readiness of almost every country to consider the elimination or at least the modification of these levees that had been hastily thrown up against the floods of 1919–24.

A further factor in stimulating the erection of these barriers was the need for maintaining many of those new war-born industries which every government, and particularly the newer succession states, felt were peculiarly necessary either as sources of sadly needed revenue or for purposes of national de-

fense. Indeed, this element still accounts for much of the difficulty now being encountered in the struggle to normalize trade channels. Much of the wartime industrial expansion was obviously of an emergency character and economically unsound.

This situation explains many of the reservations made in connection with the Geneva conference for the abolition of import and export restrictions, mentioned above. For example, Great Britain reserves dyestuffs from the application of the convention because of her efforts toward independence from German supplies in this field. The connection of the industry with any program of preparedness gave added force to the decision. Nine of the signatories have made reservations with regard to export prohibitions on scrap iron, primarily because of their poverty in native supplies of metals and the desirability of keeping this useful raw material for native industries. Some of the countries have made what appeared to be unusual exceptions or reservations, quite evidently for purposes of "trading."

Rumania, Czechoslovakia, Finland and one or two others have reserved the right to impose restrictions on petroleum and forest-product exports, evidently as a means of preventing the exhaustion of the wells and forests. Various signatories have also qualified their indorsement by exemptions of their controls upon exports of commodities whose partial monopolization was deemed a major national resource. Bulgaria's reservation of her right to control the exports of rose shoots or slips, in defense of her attar-of-rose industry, would seem to be a case in point. Several of the signatories, in-

cluding Norway, Egypt, Estonia and Portugal, whose native food supplies are apt to be inadequate or unbalanced have made reservations with regard to their right to restrict exports of cereals, eggs and dairy products.

By way of illustration of the difficulties encountered, it might be helpful to cite the experience of two or three characteristic American exports, notably automobiles and films. The American car, because of its high standing and quality, relatively low cost, and the rigorous, highly diversified conditions to which it has become accustomed in this country, meets very few actual restrictions in entering foreign markets. Recently, however, a number of artificial barriers have been encountered which have been inspired either for revenue purposes or as a protection to a home industry. Then, too, the vigor of our competition has inspired a certain community of interest among European producers, and there have been at least two attempts recently to consolidate the industries of the Old World in some form of international cartel which might confront the American industry with more effective rivalry. To such a device we can offer no proper objection, provided the opposition is frankly of a purely commercial and industrial character. It is only the discriminatory political type of nationalistic trade barrier to which the American industry properly takes exception.

The automotive import quota system as now applied in Austria, Czechoslovakia, Poland and Portugal is an outstanding trade barrier of this type. A careful analysis of the Czechoslovak market reveals

an actual annual demand for from five thousand to six thousand American cars—a demand which cannot be met by any type of local industry; and yet the official dictum fixes an 800-car limit to our shipments. The practice is made even more irritating by the fact that the same quota is fixed for any European country, no matter how small its local production of cars.

One cannot, of course, take exception to the rather general practice of colonial preferential tariffs, which, incidentally, have materially retarded the sales of our cars. Australia, which for some years past has been our leading export market, having taken a total of $46,540,954 worth in 1927, is the one most affected by this preferential barrier. The situation is also acute in the French Asiatic colonies. In French Indo-China, for example, American automotive products pay duties ranging from 45 to 180 per cent. *ad valorem,* whereas the French cars are free. Another type of automotive trade barrier intended to protect home industry is the method of internal taxation. In Czechoslovakia and the United Kingdom the assessment of taxes on the basis of horse-power falls with peculiar severity upon American cars. In the latter country some of the lower-priced American cars pay upward of a hundred dollars a year in annual taxes, whereas native cars pay less than half that amount.

Some American manufacturers are readjusting their output to meet these local requirements, but the final result is, of course, a loss to the consumer, who is thus deprived of the advantages of heavy mass production. With the gradual spread of cars

and particularly highway education, the pressure of potential consumer demand is wearing down many of these arbitrary limitations. This process will, however, take time. It can be materially expedited if headway is made in the adoption of the Geneva convention.

American motion-picture films, whose export revenues exceed $75,000,000 a year (in many companies accounting for more than one third of the total income), have also been encountering some peculiarly troublesome trade barriers. As we watch the flickering stories of magic carpets flying over the minarets of Bagdad, of caravans of covered wagons struggling over endless prairies, or of bloodthirsty prehistoric monsters battling in forgotten South American uplands, few of us stop to think that these almost miraculous dream-shadows are subject, like most ordinary articles of trade, to the cold considerations of restrictive commercial policies in the great world theater.

But such is very emphatically the case. International trade rivalries and the consequent imposition of restrictions and barriers apply just as drastically to pictures as to pickles, to celluloid drama as to celluloid collars. Teutonic *Siegfried* the dragon-slayer is "in competition" with Anglo-Saxon *Robin Hood,* the amiable bandit. The militant Joan of Arc and alluring Nell Gwyn, in Americanized versions, are regarded as so dangerous that innocent and defenseless foreign luminaries, like Nero and Ivan the Terrible, must be carefully sheltered behind a good stout trade barrier.

Half-a-dozen countries have been setting up vari-

ous types of limitations upon motion-picture imports, most of them of the so-called "contingent" order, whereby the quantity imported is contingent upon the production and distribution of a certain ratio of native films. The most spectacular case of this practice was in France, where adjustments were made recently between the French and American interests. For every film produced in France the producer is granted license to import seven foreign films. These licenses can be bought by American exporters, who also have the alternative, of course, of setting up their own productive arrangement in France. The agreement finally worked out also provided that some 208 American films can enter France without being subject to any contingent restrictions (that number being equivalent to 60 per cent. of our film exports to France in 1927). A special French commission was also created to censor incoming films.

In arguing for these modifications of the quota system the American representatives quite properly insisted that the whole scheme was fallacious, just as would be the case if the American Government should insist that French exporters of gowns to the United States would be required to purchase an American garment for every given quantity of French ones imported into America. Even as it stands, the above arrangement accepts the quota system, though in a somewhat more liberal form.

The British Parliament passed a quota law effective April 1, 1928, by which all exhibitors in England are required to show British pictures to a minimum extent of 5 per cent. of their total footage. This is to increase yearly at the rate of 2½

per cent. until the maximum of 20 per cent. is reached. The discussions in the British Parliament incident to this enactment stressed particularly the significance of American films, not so much as competitors of British films but as the promoters of American goods and American ideas. There can be no doubt about the efficacy of this vehicle as a powerful trade stimulant (the difficulty with most foreign films in this connection has been their quite evident propaganda intentions).

It has been proved beyond question that our motion pictures, bringing to other peoples an idea of the comforts and conveniences of American life, help to sell countless other kinds of American merchandise. When the ladies of Buenos Aires or Rio, of Budapest or Belfast, glimpse a Hollywood star flashing across the screen in some especially fetching bit of feminine finery, or using an ingenious kitchen utensil or a handsome piece of furniture, they are very apt to decide that they need something "just like that"—and as a rule they will manage to get it. That means business for our manufacturers. In fact, it can be definitely established that our exports in many lines—shoes, automobiles, office equipment, clothing, hardware—have been directly, though unconsciously, stimulated by the films.

But their influence is far broader than mere sales influence. As Herbert Hoover recently declared, "if we search into the channels through which acquaintance and appreciation may flow over our borders we discover that a vast new current has been added by the motion picture. It is the most penetrating and persuasive of all methods of world communication."

Indeed, those fragile strips of celluloid have become one of the most powerful bonds among nations. They make for better acquaintanceship, and that means better understanding.

Neutral consumers such as those in South America and the Far East have overwhelmingly accepted American pictures not only because of their general entertainment quality but because of their practically complete divorcement from any intentional propaganda schemes, either commercial or political.

Contingent or quota systems have been worked out in various countries other than France and Britain, including Austria (where the effort has frankly been made to force American capital into the native industry), Hungary (where the system is combined with a tax arrangement levying about $175 on each American film brought in), Italy and Germany. In the last-named country, which was probably the originator of the contingent idea, a system of import licenses has been introduced, arbitrarily limiting the total number of films to be brought in to 260 during the year ending June, 1929.

The British colonies and dominions in Asia and Australasia are observing the operations of the quota system in the mother-country and considering its application to their own needs.

The subject is of paramount interest to us because our films control at least 85 per cent. of the world's business in this field. The successful battle in Paris, therefore, in behalf of sharp modifications of the quota practice will serve as the notable example when the question is brought up.

One phase of trade barriers is exemplified by the

British rubber restriction scheme, which was removed on November 1, 1928. This I have discussed elsewhere (pp. 95–105).

The erection of that particular trade barrier and its temporary success in enforcing extremely high prices for rubber, which rose from a minimum of eighteen cents to a peak of $1.21 a pound, stimulated organization of similar controls elsewhere. Its temporary success gave encouragement to the Brazilian coffee valorization, to Mexican sisal manipulation, to Chilean nitrate control, Franco-German potash operations and similar trade restrictive and manipulating devices.

The collapse of the rubber scheme and the emphatic denunciation of such practices at the Geneva Economic Conference and its succeeding meetings have, however, cleared the way and demonstrated to the world the danger of such practices. There is evident now in each of these producer industries a determination to overcome the surplus problem by seeking to lower the cost of production and distribution and thereby to encourage greater consumption and retard the development of substitutes and of other competitive sources.

It is necessary to note the various governmental monopolies and preferential arrangements in behalf of native industries against foreign. The year 1927 apparently saw the peak of a world-wide tendency toward various forms of petroleum sales monopolies and the "nationalization" of petroleum production. Fortunately, however, there has been a marked recession in this regard. Turkey has evidenced a modification, if not an abandonment, of its government-

controlled oil sales monopoly. France has substituted through recent legislation a form of regulation and licensed importation for the long-discussed state petroleum monopoly. Spain, with a national petroleum monopoly of importation and sales effective January 1, 1928, has already modified the original terms of this law and has partially returned to regulated importation through the usual trade channels. Considerable pressure is being exerted in Rumania to commercialize oil pipe-lines and remove them from the state control which was set up in the mining law of 1921, thereby modifying materially the strong nationalization policy with reference to petroleum and mining. In Latin America there have been several interesting developments in this connection: Mexico has greatly modified its petroleum nationalization regulations, and Colombia, which has been following her example, seems inclined at the next session of her Congress to moderate the strong nationalistic emergency petroleum law. Brazil and Argentina, on the other hand, have pending proposed bills which will mean the nationalization of both production and sale of petroleum and its products.

On the whole, there seems to be under way a gradual movement for the modification of governmental intrusion in this field.

The whole category of monopolies of matches, tobacco, salt and many other widely consumed goods might presumably be included under this broad heading of trade barriers, though they are not generally accepted in that sense. So far as the match monopolies are concerned, incidentally, the spread of the

automatic lighters is causing no little consternation to the governments and concessionnaires involved. This tendency would seem to illustrate once more the precarious position of any monopolistic device when suddenly confronted with competition from an unexpected substitute.

It is gratifying to note that an increasing number of commercial treaties negotiated recently carried provisions whereby contracting countries promised to impose no import or export restrictions against each other.

CHAPTER V

RAW-MATERIAL "CONTROLS"

On November 1, 1928, the régime of rubber restriction in British Malaya and Ceylon under the Stevenson act was definitely discontinued. The final wise abandonment of this troublesome and much-debated device is very gratifying to Americans. It affords a forceful demonstration of the inherent fallacies underlying such attempts. It serves, too, to direct our attention anew to the degree of our dependence on raw materials from overseas.

Because of our manifold blessings, we are inclined, perhaps, to be a bit complacent and to conclude that our country is so richly endowed that, even if the rest of the world were to be cut off, we could still survive. At one time that may have been approximately true. In 1776 our hardy forefathers would have cheerfully substituted raspberry leaves for tea, chicory for coffee, and so on down the line. In the stern school of experience they had been taught to "fend for themselves" and, if necessary, to do without. But it is very different to-day. Imagine the cries of anguished protest we would hear—and with very good reason—if coffee, rubber and a host of other commodities which are not produced in quantities in the United States were suddenly denied us to-day. As a matter of fact, we could not "carry

on." Life as we know it would not only be transformed, it would be virtually obliterated. We are indeed dependent when it comes to many vital raw materials. Former Secretary Redfield put the situation pungently when he said that "no man in America lives through a day without calling upon every continent in the round globe for help."

It is the question of our standard of comfortable living that is most crucial. Its miraculous rise, attaining a level never before reached in the history of the world, has made the "exotic luxury" of yesterday the commonplace necessity of to-day. It is not vanity or boasting but merely the simple truth to say that the average American to-day enjoys a comfortable, pleasurable life such as most mediæval monarchs would have looked upon with envy.

And we are not willing to see it impoverished or impaired or altered in any way except for the better.

That is why we are deeply concerned with any action of foreign governments in setting up barriers that obstruct their exports of necessary raw materials to us. The abolition of restrictions or other schemes that tend to choke production and imperil the welfare of consumers is surely an object worthy of the most earnest effort.

Much has been accomplished in that direction. The outlook is decidedly brighter now than it was a year ago. In 1928 practically half of our imports—more than two billion dollars' worth—comprised crude materials and crude foodstuffs. Our rubber bill represented two thirds of the world's output. Most of it came from British Malaya and the Dutch East Indies.

Our modern civilization could scarcely exist without rubber. It has become one of the most vital—one of the most nearly indispensable—of all the natural products that are employed in industry to-day. Its use during the past quarter-century has advanced with giant strides.

What would happen to-day if we should be suddenly and permanently deprived of rubber? It is interesting to speculate on that impossible contingency. In the first place, every motor-car would be headed for the scrap-heap as soon as its tires wore out. Every loud-speaker would be silent (which at times would not be an unbearable loss!) because rubber insulation on electric wiring is essential to the operation of your radio. Without rubber every telephone would "go dead," every electric light would go out. You could not alleviate your aches and pains with hot-water bottles. The gloveless surgeon would be unable to perform his life-saving operations with assurance against infection. The dentist would find it much less easy to carry out those drilling, excavating and blasting processes which he so confidently assures us "aren't going to hurt." Bill Tilden's dazzling shots in tennis would be a thing of memory only—as would Bobby Jones's beautiful pitches to the green. Contemporary man simply could not get along without rubber; he needs it from infancy to death—from the days of the rubber nipple and the teething-ring to the time of that last ride which he takes in a slow-moving, rubber-tired vehicle. And his intervening life would be devoid of half of its conveniences and comforts if it were not for rubber.

The success of plantation rubber in the Middle East led to apparent overproduction. Overproduction led to low prices. Contrary to the usual impression, however, there was no impending catastrophe among the plantation companies. According to "The London Daily Telegraph" of January 15, 1923, not one of them had disappeared and there were, in fact, "few industries that have come through the world depression with so little loss." This was in sharp contrast to the many cases of failures among the rubber manufacturers in the United States and the serious difficulties in many branches of our agriculture.

Nevertheless, the British Government chose to restrict production of rubber by law instead of insisting that the industry work out its own problems as other industries have done. The Government's Stevenson act of 1922 limited the export of rubber from British possessions in the East. For each estate a so-called "standard production" was fixed—though the true potential production was, originally, probably 20 per cent. in excess of the "standard." A certain percentage of the total standard production was allocated for exportation in each quarter-year, depending on the average price of rubber during the preceding quarter. A "fair base price" of about thirty cents per pound was fixed.

As a matter of fact, prices soared to dizzy altitudes in consequence of this restriction. At one time in 1925 the astounding figure of $1.21 per pound was reached, and the average for that year was seventy-three cents.

For a time this barrier was able to divert the trend of prices; but, incidentally, the profit was

largely garnered by speculators and other market operators rather than the planters. The outcome of this arbitrarily sudden upward price spurt as a result of the barrier was an outraged consumer world which promptly resorted to protective devices that were ultimately completely effective.

The potency of all of these forces was greatly underrated by the promoters of this particular trade barrier. They had counted upon their control of the situation because of the long period—at least seven years—which is necessary for the maturing of competitive plantations. They also showed unusual tenacity in retaining the more obnoxious and inelastic character of the restriction when readjustment would probably have modified much of the consumer opposition.

One strong consumer weapon was coöperative buying instituted in 1926 by the so-called "American pool," which represented practically all of the larger consumers in this country. This device made for concerted action by the consumers. It permitted direct dealing with the planters and others in the East, thus circumventing the brokerage and commission-house operations in London. The power of such consolidated buying was demonstrated during the May–July restriction quarter of 1926, when the price of rubber was averaging just about 1s.9d., the figure stipulated in the scheme as being necessary to maintain 100 per cent. of the exportable allowance from the planters for the succeeding quarter. Had the price fallen below that figure the export allowance for the succeeding quarter would have been reduced to 80 per cent. of capacity. Manufacturers

supported the market during the closing days of July, holding the price just above the stipulated level, and as a result the export allowance for August–October remained at 100 per cent., then at 80 per cent. instead of 70 for the next three months, and 70 per cent. instead of 60 for an additional three months. The higher exports during 1926–27 thus brought about by the action of the American rubber pool caused an addition of 40,000 tons to the available supplies of new rubber and was an extremely important factor in forcing producer realization of the importance of maintaining high prices.

The scheme bred dependence on this type of governmental operations among the rubber producers, hampering their individual initiative and preventing their working toward lower production costs by restricting the volume of output per plantation. From its very origin this scheme had within itself the germs of its own destruction. By arousing consumer opposition and by tending to discourage rather than to encourage the expansion of uses of rubber, and also by attempting to maintain prices at excessively profitable levels, it hastened its own defeat. Though temporarily resulting in enormous dividends for various companies, the collapse from their exalted heights was all the more disastrous.

Our government officials, notably Mr. Hoover, began a campaign of education and protest. An investigation was conducted. The testimony and reports were widely published, and in this and other ways the facts of the matter became public property. This agitation was productive of excellent results. Conservation on an extensive scale was brought

about. Rubber articles, particularly tires, were kept in longer use by repairs and by more intelligent handling. In one year the United States achieved a reduction of probably 60,000 tons in its use of crude rubber—over $40,000,000 worth at the thirty-cent "fair" price. Much used rubber was "reclaimed." Coöperative buying formed another weapon. In consequence of these and other commercial influences, coupled with the psychological effect of the campaign, the price of crude rubber and of rubber manufactures underwent a notable decline. Alternative sources of supply were energetically sought, by both governmental and private agencies, and important practical measures are already developing along this line, promising valuable results for the future.

In the spring of 1928 the British Government announced that on November 1 the Stevenson Restriction Act would be discontinued. One of the principal factors that helped to frustrate the purpose of that act was the vast increase of rubber production in the islands of the Netherland East Indies, where production has been wholly unrestricted. The advocates of restriction in the British colonies had not foreseen this development. When the restriction act became effective in 1922, the Dutch East Indies were sending to world markets only about 95,000 tons, against a figured capacity of 300,000 tons for the British plantations.

But when the prices began to shoot skyward under the influence of British restriction, the Dutch—and especially the natives in the Dutch islands—became very active and started to build up their production with extraordinary vigor. The Javanese natives,

with their low standard of living, whose rubber gardens represented almost no capital investment (being merely the result of seeds scattered in forest clearings), turned out steadily mounting quantities of rubber. Production in the Dutch Indies ran up to 100,000 tons the first year the British Restriction Act was in operation. In 1927 the Dutch output was 225,000 tons, almost equal to that of British Malaya. And the enterprising natives were producing more than two fifths of this Dutch rubber. Whereas in 1922 the British furnished about 67 per cent. of the world's supply, by 1928 they were producing only 55 per cent.

The huge profits enjoyed by the Malayan natives of the Dutch islands enabled many of them to undertake the long and costly pilgrimage to the shrine of Mahomet—the mysterious, "heavenly" black stone of the Kaaba. It was certainly true, as an American merchant in Singapore remarked, that "the road to Mecca is paved with 'unrestricted' rubber."

It is interesting to note that the crucial query of this whole situation was, "How much does it cost to produce a pound of crude rubber?" The answer to that query would determine not only the justice of the claim of the British producers as to a fair price but also the possibility of exploiting competitive, non-British potential rubber areas. In order to answer that crucial question authoritatively and with finality, since nothing but vague estimates and partizan testimony were then available, a carefully chosen expedition of experts from the Department of Commerce was sent out into the Far Eastern plantation

area. The accounts of more than eighty companies were examined with their friendly collaboration. Exhaustive researches were undertaken, and the result was the first impartial, comprehensive presentation that had ever been made of that vital element.

It was revealed that the cost on the average at that time was somewhere between 15 and 18 cents, or just about the cost of producing a pound of cotton. This gave even further point to Mr. Hoover's subsequent argument that there was apparently as much ground for American protest when rubber rose to a dollar under such artificially restrictive arrangements as there would have been on the part of the British authorities if through American governmental embargoes the price of cotton were to be raised to that absurd figure.

Having answered that query as to production costs in the existing plantations, there came immediately the second problem: Where can this figure be matched in a producing area outside of British control?

In order to give an equally complete and thorough answer to that vital problem the Department of Commerce despatched a series of expeditions to the Philippines, Central America, and Brazil. The data collected by the first of these parties have formed the basis for further surveys by various American companies which are hopeful of establishing plantations in our Far Eastern possessions.

The Central American expedition had as its task the combing of the vast forests of the isthmian area to find specimens of the famous Brazilian hevea,

the mother tree of the fine hard Para rubber. This seemingly difficult task was most effectively accomplished by the use of navy airplanes in which tropical forestry experts swept back and forth across jungles which had been so baffling to Balboa some 400 years ago. As a result of these explorations, numerous groves of the much-sought-for specimens were located, and to-day one of the larger American banana companies is experimenting with hevea plantings as a by-product of its fruit-growing operations.

The Amazonian survey was one of the most exhaustive of any sort ever launched in that vast area. It covered more than 22,000 miles and developed in abundance hitherto unknown data regarding the potentialities of certain upland areas for the extension of the rubber plantation system.

The Ford concession, which covers an area in the lower Amazon Basin as large as Connecticut and Rhode Island, is the first fruit of this widespread endeavor to determine the possibility of a revival of the rubber industry in its original habitat.

No would-be monopoly in rubber or drastic rubber-restriction scheme can be made effective under the conditions that now exist. There are, or will be, too many sources of supply.

Besides the extensive plantation rubber-growing that is under way in Africa and is contemplated for Brazil, there are the substitutes for the true rubber trees. In our own American Southwest we have the guayule shrub, which yields more than 10 per cent. of its weight in dry rubber. All the cells of the guayule except the wood of its trunk contain a rubber gum. Mechanical methods of handling and treat-

ment have made it possible for guayule rubber to compete with rubber from the tropics.

We must not forget the investigations and experiments of that marvelously versatile genius, Edison. It is quite possible that his present researches will lead, in a few years, to a large production of rubber from milkweeds—or from some other of the plants for which his agents have been scouring the globe, and which the Wizard himself has been trying out in Florida.

During the World War the Germans, with their well-known ingenuity in devising *Ersatz* or substitute materials, made certain quantities of synthetic rubber, one kind in particular that was used successfully for hard rubber articles, especially battery jars for the "U-boats."

Scientists throughout the world are working diligently to-day on the problem of synthetic rubber. Many observers are a bit dubious about their ability to turn out a product that can compete in price and that will serve all the purposes of the natural rubber. But, as one recent writer says, "one never knows from what test tube or from what catalytic bomb a revolutionary discovery may be brought forth" along this line.

Crude rubber is selling to-day for about nineteen cents a pound. From the consumers' standpoint the rubber outlook is more favorable just now than it has been in years.

The whole dramatic "rubber episode" represented, in its final issue, a triumph for sound economic principles over the patent fallacies of artificial restriction and control. Another victory—less spec-

tacular but indubitably important—has recently been achieved (in a different way) in the case of quinine.

No less than 95 per cent. of the world's quinine crop is harvested on Dutch estates in the Netherland East Indies, and its sale has heretofore been under the rigid, drastic operation of about as completely effective a monopoly control as there is anywhere.

The background of that quinine monopoly is a picturesque romance. The missionaries who came to the New World in the wake of the Spanish conquerors in the seventeenth century found in Peru a bark that afforded quick relief from "chills and fever," and they gave it a name derived from that of a Spanish noblewoman, the Countess of Chinchon, who was the first European to be cured in Lima by the use of this precious product.

Then, in later years, the coincidence of climatic similarity between Java and Peru stirred the desire of the venturesome, enterprising Dutch colonists to transport a new industry across the Pacific. Their desperate efforts to get hold of the right sort of seeds from South America were baffled by the existence of sixty-six varieties of cinchona trees, of which only one had this particular therapeutic principle. Then came the deceptions practised by the Peruvian Indians in an attempt to frustrate the intentions of the Dutch—the treachery of an Indian who provided a bag of the right kind of seeds, and later was savagely murdered by his fellow-tribesmen for his pains—the triumph of "Burbanking" by which the high quinine content of a little, frail tree was transferred to a big and commercially practicable one—the ultimate enormous expansion of the

Eastern industry and the virtual wiping out of South America as a source of supply for quinine.

So far as we in the United States are concerned, the grip of that quinine monopoly has just been broken; and this is unquestionably a matter of real moment. Up till recently the European quinine manufacturers, working under an iron-clad agreement with the producers in the Indies, had things very much their own way. The trust regulated precisely the amount of the drug that was to come upon the markets of the world. They allocated certain definite quantities to each of the consuming territories. Their dictates were imposed inflexibly. They controlled the disposition and price of the quinine even after it had passed out of their hands. It had to sell, they said, for forty cents an ounce, certainly an excessive price, made possible only by the monopoly situation.

In this quinine case it was plain that the American operations of the monopoly were in contravention of the laws of the United States, which expressly prohibit such practices as were complained of in the quinine situation.

It was clearly incumbent upon the Department of Justice to take appropriate action in the interest of our consumers. So, in the spring of 1928, Federal agents at New York seized $100,000 worth of quinine in the warehouse of an importing firm because of an alleged illegal scheme to raise prices and control the market.

A truly vital principle was involved in the resultant legal proceedings, and they were watched with keen interest not only by the chemical fraternity

but also by many other trading companies and commercial bodies.

Through the tactful handling of the case by Assistant Attorney-General William J. Donovan and his assistants, the foreign quinine interests came to realize, before the case was scheduled for trial, not only their actual position with respect to American laws but also the general economic unsoundness and undesirability of the course that they had been pursuing in relation to the United States.

The result has been a complete yielding on the part of the foreign quinine monopoly and an amicable settlement of the case—of a character eminently satisfactory to our American interests. The various factors in the trust acknowledge the jurisdiction of the American authorities. They become subject to a "consent decree" of the United States District Court for the Southern District of New York.

By it they are perpetually prohibited from doing a number of things: fixing resale prices and restrictions, term discounts, allotments of territory, or any hindrances to the sale of cinchona bark, or quinine, as regards the United States. Pooling arrangements and all phases of discrimination are strictly under the ban.

One need hardly say that this is a splendid victory for the American point of view of the right of the consumer against monopolistic exactions and one that promises to be immensely valuable in setting a precedent for the future. The conclusion reached in the quinine case seems directly applicable to a number of other similar situations.

Much credit is due, both to the Department of

Justice for the forceful and judicious way in which it pushed the American case, and to the conciliatory attitude and "spirit of accommodation" displayed by the Dutch quinine interests when they came to understand the true state of affairs.

There is another controlled article that may be related rather logically to quinine. Iodine is a by-product of the nitrate industry in Chile. Its production is rigidly controlled and drastically restricted by the Chilean Iodine Producers' Association. They do not extract more than 10 per cent. of the iodine content of the nitrates. The rest of this extremely valuable chemical is allowed to go to waste—to run off into the Pacific Ocean, one may say. In 1926 Chile produced only 786 tons of iodine, when it might readily have turned out about 8000 tons. Selling prices of iodine are fixed by the association, and for the past three years the price has been $3.89 a pound—giving the producers a tidy profit of something like 500 per cent.

They contend that they restrict the output so as to "avoid production beyond the consuming capacity of the world." But such a point "cuts two ways." The world's consuming capacity for iodine would undoubtedly be vastly greater if the monopolistic control and extortionate price did not discourage research and experiment and the effort to develop a wide utilization of this chemical.

If more iodine were marketed and prices were lower, it is quite possible that we might witness a vast increase in its use, with great benefit to the producers and to humanity in general. Most persons know the commoner uses of iodine. If you happen

to tear your hand on a rusty nail, you hurry to apply the iodine. If you are suffering from thyroid deficiency and seem threatened with goiter, iodine is prescribed, being apparently a specific. It is helpful in the treatment of high blood-pressure. Poultry raisers use it as a disinfectant for their chickens.

But there are other uses—industrial uses—that might conceivably be developed in such a way as to create an incomparably larger demand than the product now enjoys. There are extraordinary possibilities for the use of iodine in the refining of metals, particularly copper. All motorists are familiar with "anti-knock" preparations, of which a substance called ethylene dibromide is the main constituent. Bromine, in the chemical domain, is the closest relative of iodine—and if iodine were available at reasonable prices there might be great scope for its advantageous use in this field.

If the Chilean industry ever becomes interested in furnishing large supplies of iodine at moderate prices, the surplus will find a market in uses such as those just mentioned, and new uses will inevitably develop. But until an inexpensive supply is guaranteed, research will necessarily be limited, and the possibilities of iodine will remain comparatively unexplored.

A little progress is being made—though not as much as we might wish—toward loosening the grip of this iodine control, by developing alternative sources of supply. Iodine is being procured from seaweed that accumulates on the picturesque coast of Brittany, in France. On the other side of the world we find Japanese women—wives and daugh-

ters of farmers and fishermen—diving in the sea for kelp, with the same purpose in view. It is also recovered as a by-product in the manufacture of a popular Japanese vegetable sauce. In Java, artesian wells are being made to yield up iodine. Near Baku, in Russia, a lake and two channels conducting petroleum waste water to the sea were found, upon investigation, to contain tons of iodine. So, in a variety of ways and places, a modest start is being made on the task of modifying, at least, the restrictive results of this particular chemical "control."

The nitrates from which iodine is obtained in Chile have themselves been the subject of a sales control. This was discontinued last year, but just recently the system of control has been clamped on again.

Within a period of less than twenty years the fixation of nitrogen from the air has developed from a few timid laboratory demonstrations to an industry with an annual capacity of more than a million tons. If converted into Chilean natural nitrate, this output would amount to about seven million tons, which is two to three times as much nitrate as Chile has ever exported in any one year.

The air-nitrogen industry, however, has by no means attained full development. The potential market for its output is so enormous and the possibilities of new and widely varied uses of the product and its by-products are so vast as to stagger the imagination. With the refinement of new processes and the bringing in of new plants, we may anticipate further price curtailment. In fact, the expansion of the industry in the past few years has

already revolutionized the Chilean industry, whose technique had become completely stagnated during its long monopolistic domination.

The Chilean producers are undertaking to meet this additional competitive strain by the improvement of their methods, notably by the introduction of the so-called Guggenheim process which has been developed by the American corporation of that name. They are also endeavoring to combat the competition of the synthetic product by a measure of much more dubious expediency—namely, a return to the policy of strict sales control. After a period of eighteen months of unrestricted sales, the Chilean Nitrate Producers' Association on August 15, 1928, reëstablished the policy of fixing prices for the entire industry. Whereas in former periods of price control the quotations were uniform for all markets, the present policy is predicated upon a system of special prices for each important consuming market. The lowest prices are quoted for deliveries to the markets (such as Germany and Great Britain) that are considered the most difficult to enter on account of the competition of the synthetic substitutes, and the highest for less competitive markets, including the United States. Inasmuch as the scale of selling prices established is not high enough to permit the operation of a sufficient number of plants to maintain high production levels, the Chilean Government has guaranteed to grant, to the producers signing the agreement, a certain rebate from the export tax.

It seems to be the opinion of nitrate experts in

Chile that this sales plan is cumbersome, complicated and economically unsound and that its duration will be relatively short, because of its probable failure to benefit the nitrate industry as a whole. The scheme is, however, too new to warrant the passing of final judgment upon it. In any event, it affords striking evidence that the Chilean authorities realize keenly that natural nitrate faces a stubborn fight for its existence against the rapid inroads of the synthetic product.

Other foreign raw-material controls still remain troublesome to us. Coffee, potash, sisal, camphor, Cuban sugar, ocean pearl shell and other materials much needed by the American people are subject to more or less stringent control or regulation. Twenty or thirty more are susceptible of such control.

The arbitrary control over Brazilian coffee production touches most of us very closely. The United States is the world's premier market for coffee. Not counting the cost of roasting, packaging and distributing, each member of an American family pays about $2.20 every year for raw coffee brought into our country. The bill would be substantially less if it were not for the prevailing policy, in the state of São Paulo, Brazil, of "damming up the supplies" through the valorization control.

Yucatan raises most of the world's sisal. This is a fiber from which binder twine is made, and binder twine is used by the American farmer to hold grain in tidy sheaves. As a result of a state monopolistic "control," sisal to-day brings about double the price that prevailed in 1913; and this means six or eight

million dollars excess to be paid annually by the American farmer and therefore by all of us who eat bread.

In each case it has been the old story of the delusions that arise in the minds of those who think they can exploit certain supposedly monopolistic powers. The commodity is one originating largely in one country. Secondly, it is subject to storage without deterioration—and can therefore be withheld from the market indefinitely to raise its price. Thirdly, it is not quickly duplicated elsewhere by would-be competitors; coffee, sisal and rubber take six or seven years to bring into profitable bearing. And, lastly, the market is in a highly prosperous area, so that the pinch of the price-fixing increases do not arouse serious protest unless carried to extremes.

The question is directly connected not only with our domestic industrial and commercial development but also with the future of our export trade. Without these raw materials at reasonable prices our manufacturing costs would be increased to such an extent that we could not compete in foreign markets. Nor could the areas abroad which produce these materials purchase goods from this country if their staple industries were interrupted. The whole fabric of international trade is held together by exchange of raw materials for manufactured goods and would be torn into shreds by any serious impairment of the supply of either.

Such schemes, in their influence on the producers themselves, have the effect of penalizing outstanding ability and coddling the less efficient, be-

cause they insure to the incompetent or slack operator the same gross return, per unit, as is obtained by his able and enterprising neighbor. This tends to destroy efficient methods, deaden initiative and discourage progress. It pampers complacent sloth. Moreover, it tends to discourage rather than encourage expansion in the use of the restricted article.

Many of the persons who originally backed such schemes in foreign countries are coming to realize their economic unsoundness. They are coming to understand that international business relations are governed by fundamental economic laws whose workings cannot long be postponed, evaded or thwarted.

Mr. Hoover pointed the way toward a sound and wholesome policy when he said: "The problem should be met on the ground of what in the long run will produce good-will and prosperity to the entire world, for no single nation can dissociate its prosperity from the prosperity and good-will of all of them. . . . I believe the solution lies in the willingness of statesmen throughout the world to recognize the consequences of government-controlled production and prices, and to meet the issue in the only way it should be met—that is, by abandonment of all such governmental action."

Part II

AMERICA'S TRADE PROBLEMS AND POLICIES

CHAPTER VI

A CENTURY OF OUR COMMERCE [1]

COMMODORE VANDERBILT, the founder of the great business organization built up under that family name during the nineteenth century, was once asked why he diverted his interests from the merchant marine to railroad development at the time of his early activities in establishing the New York Central Lines. "That's simple," he replied; "six per cent. is twice as good as three per cent."

And indeed this statement goes far toward explaining the whole relationship of our oversea interest to the general economic development of the country during the past century. Whenever it became economically advantageous to do so, our foreign trade interests, which absorbed a relatively large proportion of our total commercial life during the early decades of the Republic, were diverted to more lucrative fields at home. And this in spite of intermittent emotional patrioteering, which seems always to have been an accessory to our foreign trade thinking. The calm, cold business aspects of the situation have naturally been the real determinants of the trend of our foreign trading, regardless of all the

[1] Reprinted from "A Century of Industrial Progress," edited by Frederic William Wile. (Doubleday, Doran & Company, New York, 1928.)

flag-waving, thunderous after-dinner oratory, "pointing with pride," and so forth.

The records of the century may be used as an indication of the moderate but helpful part which foreign trade has played as a stabilizer of our whole business development. A careful scrutiny of the variations of our exports reveals their service as an outlet in time of domestic stress and as a general stabilizer of industrial life as a whole during more recent decades, when fabricated wares have become increasingly conspicuous in our commerce in general.

In spite of the fervid publicity so frequently given to the subject of late, it has played a relatively moderate part in our commerce as a whole; but although it does not bulk large in the economic machinery of the nation, its function as a pendulum, so to speak, has been invaluable and on more than one occasion since 1827 has played a vital part in keeping the business life of the nation from real distress.

The value of our oversea outlets during such crises as the panic of 1837, the depressive period of 1873 and after, and the crash of 1907, will be fully developed as we proceed with the record. In each case foreign commerce provided a most helpful corrective of the domestic situation—which in part, at least, moderated the disasters of the domestic crash.

Ordinarily a period of warfare is regarded as a real disaster to the economic status of the participants, and such indeed it is so far as the destruction of men and materials is concerned. It must be noted, however, that among the compensating fea-

tures which, at least to a moderate extent, serve to contribute to the more favorable side of the balance, is the sharp stimulation of productive energies made necessary to strengthen the national resources during the particular struggle. As a result we have the industrial expansion which has been so strikingly evident during each of the periods of warfare in the past century of our history. There was a notable expansion of our industries in the course of the rallying of national strength and resources during the Mexican War, Civil War, Spanish-American War, and finally, and most dramatically of all, the great struggle of 1914–18. Consequently, the industries of the country were faced after each of these crises with the grave problem of disposing of surplus and of occupying the excessive productive capacity developed during the preceding conflict.

In these emergencies the oversea markets have been resorted to with rapidly increasing energy and, on the whole, with material benefit. Naturally, however, much of this immediate post-war expansion was abnormal and there came the usual recession. But in general, during the decade that followed each war, there was a gradual readjustment upward, with the natural result that foreign trade assumed a steadily larger part in our whole commercial development.

Finally, it is interesting to note the position of foreign trade as a reflex of the general westward movement of our national economy. The opening years of the century under discussion were marked by an intensive concentration of the forces of the nation upon the vast problem of introducing the

equipments of civilization into the Mississippi Valley. For a time, therefore, there was a lull in foreign trade development. But as the new western agricultural enterprises came into bearing, the trend of our exports of farm products took a sharp upward turn because of the availability of surpluses not needed for domestic consumption. Then, after the Civil War, as the transportation facilities—the highway and railroad network and the waterways—were more intensively exploited and developed, the new communities of the vast western lands absorbed a greater proportion of the available produce. In the course of time the new industries developed in the recently established communities caught up with domestic consumption, and once more we have a new drive on foreign markets.

In other words, each successive wave of our westward economic evolution has had a corresponding reflex in foreign trade activity; the story of our oversea commerce thereafter becomes an interesting indicator of the general trend of our economic evolution.

Since our first official trade statistics of any consequence became available in 1821, it might be interesting to make some general comparisons between our status then and now, with reference to the subject at hand. During the intervening period our exports have multiplied one hundred and eleven times and our imports have increased sixty-eightfold. Of course, a substantial deduction would have to be made for the considerable deterioration of the purchasing power of the dollar in that time; but even so, the figures give ample indication of the impres-

sive growth of this branch of the nation's business. In 1821 all of the foreign commerce of the United States was carried on by sea, whereas to-day a very substantial portion, nearly 12 per cent., moves across our two land frontiers by rail. At the beginning of the century American vessels carried nearly 93 per cent. of our total water-borne traffic, whereas to-day the proportion is about 35 per cent.

The geographic alterations in our commerce since the opening of the century bring out picturesquely the changes that have taken place in the commercial geography of the world since that time.[2] For example, the colonization of the Australian continent (then called New Holland) had scarcely begun, and much of Africa was still at its "darkest"—to mention only two of the regions where great changes have taken place during the century.

It is therefore difficult to make any accurate comparisons save perhaps by continents as to the general trend of our commerce. Nevertheless, it is interesting to note that at the beginning of the period under review England was our leading market by a wide margin. In 1821 she took nearly forty-two million dollars' worth of American exports as compared with the second market, Cuba, which absorbed a little more than eleven million dollars in American commodities, followed closely by France with something more than ten millions. Thereafter came China ($7,400,000), Holland ($5,600,000), Haiti ($4,500,000) and the Danish West Indies

[2] An interesting article on "One Hundred Years of American Foreign Trade," by M. De Richey Cain of the editorial division of the Bureau of Foreign and Domestic Commerce, appeared in Commerce Reports of March 16, 1921.

($3,800,000). These were the seven leading markets—an interesting group, particularly in that all of them have since gone down the scale in relative position, this being especially true of the West Indies. Naturally, much of the early traffic with those islands was for redistribution to their neighbors. To-day, the first seven of our foreign markets are Canada, the United Kingdom, Germany, Japan, France, Argentina and China.

At the opening of the century England took nearly 38 per cent. of our total exports, whereas the Cuban share indicated above was but little more than 7 per cent.

On the side of imports, England supplied us with slightly more than 37 per cent. of the total and Cuba about 10 per cent. The prominence of England and France is obvious because of the heavy demand for American raw materials to sustain the European manufacturers. In the case of Cuba, the leading items were the importation of sugar and the export of foodstuffs, lumber and other materials for the rapidly growing plantations on the island.

The Chinese trade is especially interesting because of the difficulties encountered in the long sea voyage. The exports were of varied type, including miscellaneous manufactured commodities and such oddities as medicinal plants (notably ginseng), and even ice, which was shipped in considerable quantities from New England around the Horn. The early operations of the New England whalers in the North Pacific and the traffic in hides from the California coast, vividly described by Richard Henry Dana in

his "Two Years Before the Mast," were linked up with this China trade. Indeed, the interests of American traders incidental thereto in Monterey and towns along the California coast had much to do with the friction with Mexico which led ultimately to the war of 1846–47 and the annexation of that vast territory. The gold discovery did not come until after its acquisition.

It is interesting to note also in this connection that the pronouncement of the Monroe Doctrine in 1823 was instigated, in part at least, by the steady southward movement of the Russian settlements from Alaska and the fear that this might involve some incursions in the American foreign trade outposts in California and elsewhere on the Pacific seaboard. Our North Pacific trade activities during the early decades of the century were thus responsible to no little extent for these great episodes in American history.

Turning to commodities, it is natural to find that at the opening of the century under discussion the leading item of import was piece goods of various types, including linen, hemp, cotton goods, silk and woolens, which together made up more than 35 per cent. of our total purchases, valued at more than twenty-two million dollars. Other items included coffee (about $4,500,000), wines and spirits ($3,600,000), sugar ($3,500,000), iron and steel manufactures ($3,200,000) and molasses ($1,700,000). However, only two of these items continue to occupy upper positions in the totals of our imports—namely, sugar and coffee. To-day the outstanding

commodities among our purchases from overseas are rubber, raw silk, coffee, sugar, paper, petroleum and furs.

With reference to exports, cotton was first in 1821, just as it is to-day; but though the value of our exports of that commodity has increased forty-three times during this period, it comprised less than 18 per cent. of our total exports in 1927, as against about 46 per cent. in 1821. In the latter year the other commodities of major export significance were tobacco, flour, rice, lumber, pork products and fish. In contrast with this list, the six leading commodities to-day, in addition to cotton, include petroleum and its products, machinery, automobiles, wheat and flour, and packing-house products. In other words, three of the six leaders to-day were prominent a century ago, but the other three are clearly indicative of the newer industrial development in the country—the enormous expansion of the oil industry, the development of automotive production, and the vast growth of manufacturing of agricultural implements, electrical apparatus and other items classed under the general heading of machinery.

The late eighteen-twenties found our foreign commerce at the end of a period of dullness which had begun about 1818. In fact, by 1830 the total exports were actually less than they were some twelve years previous. This was due in part to the general decline of prices, but there was also a falling off in volume.

Even more conspicuous was the falling off of the import trade, which had dwindled to such an extent that for several years there was actually an excess

of exports over imports—a phenomenon quite striking at this period, since it was not until 1876–80 that the trade balance, when calculated on five-year averages, showed a normal "favorable" or export excess. Imports from nearly all of the important countries of Europe fell off materially, as did also those from the West Indies.[3] There was a general stagnation of trade in both directions during this period up to 1830. Until 1835 imports ran below nineteen million dollars annually, except in one year. It is worthy of note also that not less than one third of the imports were reëxported, so that this substantial portion of the trade was important only in so far as it provided traffic for the merchant marine. The opening of the Erie Canal in 1825 had mildly stimulated business in New York, but this was simply a diversion from the neighboring ports on the Atlantic, and the total volume did not show any consistent increase.

In general the decade 1825–35 showed a relapse from the abnormally high export figures which immediately followed the termination of the war with England in 1815. As was indicated above, each military conflict was followed by an upward trend in our export activities, and in this case there came the inevitable sag, with the major losses in the exports to England and the West Indies. Curtailments were evident in all commodities, with two exceptions—

[3] The various writings of such nationally known authorities as G. G. Huebner, Walter W. Jennings and Clive Day are especially valuable on this period. Particularly useful are the chapters by Huebner in "The History of Domestic and Foreign Commerce of the United States," edited by E. R. Johnson (two volumes, Washington, D. C., 1915).

namely, cotton and manufactured goods. Trade was materially curtailed in such important items as fish, lumber, naval stores, tobacco, corn and wheat. Cotton growing had a very substantial increase during this period, so that a large portion, perhaps 40 per cent. of it, was grown in the relatively newer plantations of Tennessee and the lower Mississippi Valley. These virgin lands contributed largely to the impressive increase of cotton exports from eighty-seven million pounds in 1819 to two hundred and ninety-eight million pounds in 1830. The advance in manufactured exports, as pointed out by Huebner, was due primarily to the growth of the cotton, textile, shoe, soap, candle, hat, wood and iron industries.

The loss of trade was general, although New York suffered less than other important shipping centers. Pennsylvania was perhaps more severely hit than any of the others; in fact, she fell from second place in export totals in 1790–1800 to eighth for the decade ending 1830, having been passed by most of the important commercial States of the Union. The ranking of the different States is rather interesting. Taking the annual averages for the decade 1821–30, we note that New York was easily first with $12,800,000, but that the next three export States were all in the South—namely, Louisiana, South Carolina and Georgia, in that order, followed by Massachusetts, Virginia, Maryland and Pennsylvania. In fact, New Orleans was the second port of the nation, with an export value about double that of Boston and three times that of Philadelphia,

and the Crescent City at the gateway to the Mississippi was soon to pass New York as the leading export center of the Republic.

The explanations for this situation, as given in Pitkin's classic study and elaborated by Huebner, were, first of all, the general repercussions from the panic of 1818–19, and the rapid development of domestic commerce, which absorbed an increasingly large proportion of the slender resources of the young Republic. New England was gradually turning from the old policy of free trade to one of protection for the newly stimulated industries, and her place as a leader of the oversea commercial interests of the country was gradually being taken by the South, with its increasingly heavy shipments of cotton, tobacco and naval stores. The growth of home industries during this period was extraordinary and resulted in a tremendously increased demand for new materials which hitherto had only found a profitable market beyond the seas. These industries rose in part as the result of the successive protective tariff acts of 1818, 1819, 1824 and 1828.

At the same time there were tariff acts, corn laws and other measures on the part of European countries which curtailed the outlets for American exports, particularly of agricultural products. The first stages of the present-day "British Imperial Preference" policy, favoring raw materials from the various units of the empire, were inaugurated at this time, and as a result every effort was made to bring in cotton from India and the West Indies. On the whole, the period from 1818 to 1830 was one of

downward readjustment after the usual post-war inflation, coupled with the diversion of trade currents to the newly developed domestic industries.

There was a slight improvement in trade from 1831 to 1835, but the first definite signs of recovery did not appear until the latter year, when for the first time the record export totals of 1807 were surpassed. This was due partly to the adjustment of the dispute with England regarding the equality of British and American vessels in the West Indian trade, upon which agreement was finally reached in 1830. Then, too, a number of important reciprocal shipping arrangements, similar to that referred to, were drawn up with some seventeen or more nations during the period 1828–36. There were also a large number of commercial treaties concluded in that time.

A conspicuous feature in our export trade was the gradually increasing importance of New Orleans. In 1833 for the first time Louisiana passed New York as the leading export State, having in that year a total value of outgoing shipments of more than $16,000,000. She retained this predominance down to the Civil War, a factor which was explained, not simply by the enormous growth of cotton exports, but also by the development of south-bound river traffic from the newly opened lands of the West.

With the heavy concentration of the energies of the South upon the cotton-growing industry, there was naturally a sharply increasing demand on the part of its population for practically all commodities outside of a few limited foodstuffs. The growth of the British textile industry supplied a valuable mar-

ket for the South's great staple, and as a result all of the ports on the Gulf and our South Atlantic seaboard became great centers for foreign commerce.

The penetration of the new lands which were contributing so heavily to this export traffic went on apace, not simply by the construction of highways, but partly by the opening up of river and canal traffic. The opening of the Erie Canal in 1825 has already been mentioned. In addition, the linking of the Ohio River and Lake Erie in 1832 by the Ohio Canal and the rapid accumulation of flatboats and other craft on the western rivers and along the seaboard became conspicuous during this period.

It is interesting to note the shifts in geographic distribution of our oversea traffic. As indicated above, Europe was the most important consumer; in fact, her share of our total exports increased from 65 per cent. in 1821 to 75 per cent. in 1860. The sharpest decline during that period was in the case of southern North America, including the West Indies, whose share fell from 22 per cent. to less than 9 per cent. during that time. The proportion of commerce to South America and Asia remained about stationary during that period. In other words, the vast increase in cotton and other raw-material shipments across the Atlantic absorbed nearly three quarters of our total oversea commercial effort during the pre-Civil War period, and the declining percentages of Latin-American and Asiatic commerce did not represent any cut in their actual totals.

In contrast with the export trade, which was pretty generally scattered over a number of States along the seaboard, the import traffic was con-

centrated in a few ports on the North Atlantic, New York taking nearly two thirds of the total and acting as the gateway for most of the inland and even southern import trade. Incidentally, this discrepancy between the southern import and export operations was keenly felt by such contemporary southern observers as De Bow, who insisted that the South should stimulate, as far as possible, the direct importation of necessary foreign supplies in order that it might liberate itself from its dependence upon the North for imports. This note of protest against the unbalanced character of its oversea traffic is an outstanding feature of the economic literature of the pre-Civil War South. It had much to do with the dissatisfaction of southern leaders before 1860.

With the close of the Mexican War in 1847, however, there came an immediate burst of commercial activity which rolled on with increasing momentum until the opening of the Civil War. The discoveries of gold in California in 1848, in Australia in 1851 and in Colorado in 1859 contributed to this movement and inspired the construction of the Panama Railroad, which, with the exploitation of the Nicaragua route, led to a marked increase in trans-Isthmian trade, not only with California and Australia, but also with the Pacific seaboard and Latin America.

The period was also marked by the rapid expansion of the railway network throughout the West.[4] The mileage rose from about 9000 in 1850 to nearly 31,000 in 1860. Telegraphic communica-

[4] See E. R. Johnson, "American Railway Transportation."

tion was reasonably effective among all of the larger centers of the country by 1860. The new West was teeming with agricultural life, with the live-stock traffic centering mainly in Cincinnati and Louisville and the corn trade largely in Chicago.

An invaluable factor in the further stimulation of oversea trade in some of these commodities was the abolition of the British corn laws in 1846, after which American cereals and flour found a free entry into that important market. This, coupled with the reciprocity agreement with Canada in 1854, stimulated trade in these basic staples to unprecedented figures. Corn shipments overseas had risen from about three million bushels in the late eighteen-forties to more than ten million in 1856. Wheat cargoes rose at an even greater rate from about a million bushels in 1851 to more than fourteen million in 1857. Exports at last climbed to a position exceeding imports, so that with increasing frequency (though not permanently until the latter eighteen-seventies) the turn of the years found a favorable balance of trade.

England still continued to be the leading oversea market, but there were also a number of significant minor shifts in the direction of our sales abroad. The settlement of affairs with Mexico, Perry's visit to Japan, the treaty with China after the opium wars, the development of the sugar industry in Hawaii and the establishment of orderly government in many South American republics all served to stimulate commerce with these far-flung areas. The West Indian trade was, however, more or less stationary, except for Cuba, and even there the

periodic insurrections made business something of an uncertainty.

On the import side there was an increasing tendency to draw upon South America in particular, our share of incoming cargoes from that region having risen from less than 3 per cent. in 1821 to nearly 10 per cent. in 1860. There was also a sharp advance in the import trade from Canada, which rose from less than 1 per cent. of the total in the former year to nearly 7 per cent. in 1860; meanwhile, the relative proportion of trade from other parts of the world remained practically stationary, with the European share falling very slowly from about 65 per cent. to 61 per cent.

By the opening of the Civil War American export trade was indeed in a strong position, exceeding $333,000,000 in value, or more than six times as much as it was in 1821. Meanwhile, imports had climbed from $54,000,000 to $353,000,000. Deep-sea vessels had in the meantime risen in tonnage from less than two million to more than seventeen million; the American merchant fleet had grown from 854,000 to 2,400,000 tons. As Huebner very well sums up this period, it was one of "prosperous growth during which the general character of foreign commerce was in many respects considerably altered." First of all, there was a permanent relative decline in the volume of foreign raw exports.

The relative importance of tobacco as an export was permanently lost, and the same was true of fish and naval stores to a large extent, as well as of indigo, fur and especially rice, all of which had long been featured in export figures but waned in impor-

tance during the eighteen-sixties. Several of these disappeared because the South was centering upon cotton, and others because the North was turning from fish and the fur trade to agriculture and manufacturing; but the outstanding feature of our foreign trade during this period was that, substantial though its totals became, it was an increasingly minor adjunct to the enormous expansion of domestic trade. As Huebner expresses it, "a large number of populous industrial and commercial cities grew up to provide a domestic market for the agricultural, sea and forest products of the country. A sectional specialization of industry led to an ever-increasing volume of exchanges among the various parts of the Union, and American producers, with the exception of the cotton planters, were free in a large measure from the dependence upon a foreign market which had characterized their economic condition of former years."

The Civil War inaugurated a period of temporary lull or, at most, a more moderate advance so far as exports were concerned. This was due to the serious embarrassments of our leading agricultural export items, notably cotton and tobacco, as well as to the wartime preoccupations of many northern industries and the general destruction of shipping by southern raiders, notably the *Alabama,* and the elimination of American sailing craft by the rapid expansion of British steam tonnage. In 1860 more than 66 per cent. of our total exports and imports moved in American ships, but ten years later the proportion was down to about 35 per cent. Thereafter the decline continued until the World

War, but the maximum rate of diminution was during the decade of the Civil War.

The crisis of 1873 naturally contributed further to the impairment of oversea traffic through the sharp curtailment of credit and the temporary embarrassment of newly established industries which had made some headway after the Civil War.

From 1875 onward, however, American export trade launched into a largely spectacular advance. In fact, its beginnings seemed to take shape clearly in the further necessity for foreign markets to absorb surpluses of war-born industries on the one hand, and to compensate for such domestic distress as was generated during the recent crisis.

An interesting feature of this new era is the first appearance of what have been designated as specialties in our manufactured exports—those distinctive American contrivances which have been increasingly conspicuous in our foreign trade. For example, sewing-machines come into our export figures for the first time immediately after the Civil War and by 1872 were averaging $2,500,000 in value. Similarly, watches and clocks come in with an average of over a million during 1875–80. In fact, the manufactures of iron and steel, including stoves, wire, hardware, nails, locomotives, etc., jumped in annual value from about ten million dollars during the years 1866–70 to about sixteen million dollars during 1871–80.

The opening of the twentieth century brought in a number of profoundly significant events which enormously increased the complexities of international contacts, quickened the transmission of com-

mercial information and goods, strengthened the security of trade in all parts of the world, even in the most remote areas, provided invaluable new aids to navigation, and in a hundred other ways put foreign trade upon a new footing.

It was no longer the old picturesque, adventuresome calling, though it did not lack some of those features. In the main, however, the complete transformation of business methods throughout the world and the vast improvements of communication and transportation during the first quarter of the twentieth century have made foreign trade a secure and stable factor in business—in fact, the losses therein are currently rated as less than those in the domestic course of commerce in terms of percentages of the sums involved. All of these factors laid the way open for the small trader who had been previously kept out of the field because of the large risks and substantial capital involved. Oversea commerce, which had hitherto been largely in the hands of big corporations that could provide their own protection, transportation facilities, oversea factors, etc., was now open to small operators as an attractive field for their modest endeavors.

At the opening of the century the United Kingdom was easily first with 22 per cent. of the world's commerce, her nearest rivals being Germany with 13 per cent., the United States with 12 and France 9. By the outbreak of the World War there had been a slight change in the shares of the European nations, that of Great Britain having fallen to 19 per cent., Germany having risen to 14 per cent., and France having declined to 8 per cent. In other words,

the Germans gained at the expense of their two leading European rivals, the United States meanwhile having kept the same proportion—namely, 12 per cent. of the total.

An outstanding factor in our foreign trade position during this period, and in fact since the war, has been the complete alteration of many trade routes. For example, a number of bulk raw materials which have always figured conspicuously in our imports formerly came to us largely by way of European trading centers—such commodities as rubber, vegetable oils, tin, wool, cacao, furs, dyewoods, etc. To-day, however, the larger proportion of these necessary commodities is brought directly from the production areas in the Far East and Latin America. The American consumer has thus been saved some important charges in extra transportation, commissions of middlemen, longer credit necessary to cover the commodities in transit, etc.

This change accounts in part for the astonishing increase in the values of our imports from Asia and Latin America. In fact, the sales of ten selected countries in those regions to the United States have increased some 362 per cent. since 1913, whereas their sales to the rest of the world have increased only 87 per cent. in that time. Another interesting feature of our new post-war trade is the growth of exports of a series of relatively new native industries, which were inaugurated during our wartime isolation from Europe and were given further sustenance by the protective tariff inaugurated in September, 1922. This includes a number of important lines of chemicals, textiles, fine hardware, precision

instruments, etc., which are gradually developing substantial figures in our export columns.

The post-war position of the trade balance has been significant. In the years just before the war the excess of exports had averaged about $430,000,000, reaching $750,000,000 in 1913; and during the war this was multiplied many times, reaching a peak of over four billions in 1919, with an annual average of over a billion during 1921–25. Much of this was accounted for by tremendous loans to the Allies, investments abroad, heavy increases of immigrant remittances and of tourists' expenditures. The latter item rose to $360,000,000 in 1923, which has been much more than doubled in 1928, the total now standing at about $900,000,000, according to preliminary estimates. The favorable balance has been modified somewhat since the abnormal post-war years, although it still stood at about $700,000,000 for 1927, accounted for largely by the continued heavy increases of these same invisible items.

There have been a number of striking changes in the geographical distribution of foreign trade in recent years. In the early decades of the nineteenth century the exports were highly concentrated in a few European countries, whereas imports were widely diversified. The situation is now materially modified and exports are becoming more widely scattered. Europe, which with the adjoining territory of the Near East was taking some 63 per cent. of our pre-war exports, now absorbs less than 48 per cent. Latin America is gradually increasing her share, taking about 18 per cent., as compared with 14 per cent. during 1910–14. Canada has increased

her portion from less than 15 per cent. to about 16 per cent. The Far East, including Australia, now takes the same as Canada—namely, 16 per cent., as compared with less than 8 per cent. before the war.

It is interesting to note that about 50 per cent. of our imports and nearly 40 per cent. of our exports are made up of textiles and vegetable fat products. In fact, textile raw materials constitute both the leading export and one of the two leading import wares—namely, raw cotton and raw silk respectively.

Closely linked with this has been a group of vegetable food products and breadstuffs among the exports, and sugar, coffee and fruits among the imports. Rubber, which in recent years has stood at the head of our import list and bids fair to continue so because of the enormous increase in our automotive industry, is also a form of vegetable product. Standing close to this great group of vegetable and raw materials is a list of non-metallic minerals and metals represented in exports by the very heavy shipments of petroleum products in both directions—imports of crude oil from Mexican, Colombian and Venezuelan wells (largely developed by American capital) and exportation of refined products.

Our exports of finished manufactures have increased in each of the last five years and now stand at over 50 per cent. above 1922 in value. In fact, they now comprise nearly 60 per cent. of our total exports, as compared with 30 per cent. in 1901–05. This is particularly gratifying, because the success of our oversea sales in these lines has, in the first place, been built up largely by small or medium sized establishments since the war, whereas it has been

often said that, so far as manufactured exports were concerned, in pre-war years about fifteen companies supplied nearly 90 per cent. of their total volume. A second gratifying feature of the situation is the fact that its expansion of our foreign commerce has been determined largely by the extent and effectiveness of our sales efforts.

Unlike raw materials, the oversea sale of manufactured goods depends upon intensive export drives; they are not self-selling or subject, to any appreciable extent, to the vagaries of competing crops, weather conditions, famine and other factors beyond human control. A typical instance of fabricated exports has been in the automotive field, which includes not simply a few large concerns but also hundreds of small firms dealing in parts, accessories, etc.

Foreign trade, then, has become a modest but invaluable part of our whole economic system. It has served again and again as a stabilizer of our domestic position and as an indicator of the general trend of our commercial and industrial growth. Because of its far-flung variety of contacts and of its innumerable participating industries, it is no longer likely to suffer hectic gyrations due to the whims and shifting plans of a few participants, as was the case in pre-war years. Even though it may not contribute more than perhaps 10 or 11 per cent. of our total commercial life, that modest margin has frequently saved more than one major industry from distress. The nation's business men are becoming "foreign trade minded," not through any emotionalism or flamboyant patrioteering, but simply because they

have seen, as Commodore Vanderbilt saw nearly a century ago, the necessity of appraising and being guided by the practical dollars-and-cents value of this steadily strengthening contributor to our entire commercial well-being.

CHAPTER VII

EUROPEAN RECOVERY AND AMERICAN FARM EXPORTS

THERE can be no doubt about the substantial headway that Europe has already made up the steep rocky road which has brought her out of the dark abyss of the recent tragic past. Abundant factual—and near-factual—material on this has been poured out upon the world in recent years. It seems high time, therefore, that we should appraise the significance of this development in terms of our major commercial interests in the Old World. Farm products have always formed by far the larger part of our transatlantic exports, and there is no indication that they will lose that predominance for years to come. What, therefore, is the real significance of this renaissance of Europe in terms of our agricultural trade? Does it mean simply a reversion to pre-war operations? Or, have any vital new elements been introduced in the situation? What about the development of new buying power in the Old World? Are we to anticipate serious consequences from the trade barriers which have been harassing commerce at every Continental boundary and most of all along the 5000 miles of new frontiers that were erected by the Treaty of Versailles? Are there evidences of serious discrimination against American commodi-

ties? What is the trade significance of the native agricultural productivity which is being so intensively promoted?

In other words, just how new is this "new" economic Europe? What is its meaning for a major portion of our export trade, which has become so substantial a part not simply of our commercial life but of our entire economic system?

Europe is still our best foreign customer; she still takes nearly half of everything we sell abroad, and although her share is gradually dwindling (it was 60 per cent. in 1913), there is no indication of her being overtaken by Latin America or the Far East as our major market for many years to come. Although our trade across the Atlantic is largely made up of raw staples, primarily farm products, there is a steadily increasing proportion of manufactured goods. Last year Europe took more than 27 per cent. of our total manufactured exports as compared with 16 per cent. in 1913—a reflection to a certain extent of the need for industrial equipment in the rehabilitation of European factories, but also an indication of the increasing market for American fabricated specialties with the spreading realization of the superiority of our industrial methods and newer technique in many important lines.

Europe takes more than 80 per cent. of all our agricultural exports; and three fourths of this trade is concentrated in the five northwestern countries, the United Kingdom, Germany, France, with their two small neighbors Belgium and the Netherlands, which in fact figure considerably as redistribution centers in our European trade. Indeed, this terri-

tory, with its densely concentrated 160,000,000 inhabitants confined to an area less than one fifth of that of the United States, is the world's greatest market for surplus farm products. It is therefore the rehabilitation of this territory with which we are chiefly concerned.

We think of our European markets as primarily involving a few great staples, and, indeed, the major portion of this trade is in this broad group. Just about half of the $1,281,000,000 worth of farm products which we sold to the Old World in 1926 was made up of raw cotton, and about one sixth—or something more than $200,000,000—was contributed by cereals and their products. Tobacco came third with $92,000,000; followed by meat and meat products ($84,000,000) and lard ($79,000,000). These are the "big five" of our farm-products trade. They held relatively about the same positions in the years just before the war.

But a significant new development is going on—namely, the growth of the demand for what might be called farm specialties, the added items which bring a touch of semi-luxury to the simple board of the working population.

Perhaps no clearer index of the recovery of Europe could be found than the steady advance that is being made in the consumption of such articles in this group as our fresh, dried and canned fruits, whose transatlantic sales have risen from about $24,000,000 in 1913 to nearly $75,000,000 in 1925; and of fresh, dried and canned vegetables, whose sales were less than a million dollars in 1913 and approached $2,700,000 in 1926. Among the items

included in the above classes were raisins, the sales of which were built up from about $1,500,000 in 1913 to more than $12,000,000 in 1927; prunes, which rose from $6,650,000 to more than $12,600,000; and fresh apples, whose sales made a spectacular increase of more than 300 per cent., coming from $7,898,000 to nearly $30,200,000. Clearly, the standard of living and with it the buying power of Europe have undergone profound changes within the past decade or two. The war may have brought about appalling destruction in men and materials, but it also loosed new aspirations, unfettered hitherto dormant desires, and evidently created with them all the means for their gratification. Therein lies the fundamental significance of the new world which has risen out of the ashes of 1914–18, from the point of view of America's farm-products trade. In the remote mediæval era before 1914 it would have been nothing short of grotesque humor to suggest the possibility of introducing American grapefruit to European tables, and yet that commodity, which was almost a curiosity over there before the war, was brought in the United Kingdom alone to the extent of more than 421,000 boxes in 1927 (the initial "educational" consignments totaled about 10,000 boxes in 1922).

There is another interesting though perhaps minor repercussion to the recovery of European buying power—namely, its reactions on our sales of farm products to Latin America and the Far East. As the post-war purchasing power and the needs of the Old World were reawakening, its demands for raw materials from colonies and dominions and

other raw material producing territories beyond the seas grew apace, and as a result we find the stimulation of hitherto latent demands in the Orient and South America for many of our farm specialties which had hitherto found only the most scanty markets in those regions. If, for example, we take a range of our major farm-products exports—fruits in various forms, canned vegetables, meats, milk and wheat flour—we discover that our sales in these lines to Latin America rose from $21,000,000 in 1913 to $46,000,000 in 1926 and to the Far East in the same time from about $12,000,000 to $23,500,000. This expansion was not entirely due to the stimulus of European demand for the products of those countries, but there can be no doubt that the reviving purchasing power of the Old World was a distinct contributory factor.

Western Europe takes about 90 per cent. of the surplus agricultural products of the world, and the United Kingdom accounts for approximately one fifth of that share, according to the calculations of E. G. Montgomery of the Department of Commerce. The tremendous importance of the European situation to the world position in these basic trades is therefore quite obvious. These farm surpluses originate almost entirely—about 90 per cent. of them—in four countries, Canada, the United States, Argentina and Australia, and our country contributes approximately half of this portion. It is drawn, as indicated above, primarily from our four great surplus-producing staples—namely, cotton, wheat, corn and hogs. We export from 50 to 60 per cent. of our cotton, 25 per cent. of our wheat, 60 per cent.

of our lard and 15 per cent. of other pork products. Pork prices directly affect those of corn, and naturally the price of cotton determines the whole economic trend in the entire cotton belt. It is evident, therefore, that the European situation plays a vital part in determining the price levels in all of these staples.

Before the war, western and central Europe were about 85 per cent. self-supporting in foodstuffs and 30 per cent. in clothing materials, such as cotton, wool and hides. The variations in individual countries, of course, were considerable. In the matter of foods, for example, England was only about 40 per cent. self-supporting, whereas in Italy the figure was nearer 80, in France about 90, and Austria-Hungary about 100.

The war made drastic changes in these figures, and out of the chaos there has come a new world—new in its capacity for varied farm imports, new also in certain fundamental aspects of home production. For one thing, the war-material needs of central Europe and its enforced isolation during the hostilities vastly expanded the chemical industries and with them the production of fertilizers. The growth of the synthetic nitrate industry, which came as a direct result of the elimination of imports of natural nitrates from Chile, has gone on at such a rate in Germany and Norway that to-day both countries are not only supplied with abundant quantities for domestic farm uses but are also exporting substantial amounts. The effect of this new development scarcely requires comment; according to some estimates, the increased nitrogen fertilization spares

Germany from the necessity of importing an equivalent of 2,600,000 tons of grain annually. This is admittedly an excessive figure; but even so, there can be no doubt about the increasing effect of this vastly improved fertilization upon the dependence of central Europe on the outside world for foodstuffs.

The immediate effect of the war was to divert about 30 per cent. of agricultural production of Europe to North America and to eliminate Russia as a surplus-producing country for many years. With the post-war collapse of currencies, the emergency subsidies and governmental credits and loans, there came the inevitable drastic repercussion upon European buying power and a sharp decline in agricultural prices, as pointed out by E. G. Montgomery in Commerce Reports of December 18, 1922. The protracted elimination of Russia from the grain trade has naturally thrown the Old World largely upon more remote sources. The determining factor in the continuance of that dependence will be the recovery of Russia and of other home supplies in the Old World, but the latest reports of Commissioner Steere and H. B. Smith of the Departments of Agriculture and Commerce respectively, regarding the position of agriculture in Russia, are not encouraging. The throes of further "readjustments in agricultural policy which is still in transition" seem to continue.

The deflation of the European cotton textile industry from its extraordinary wartime expansion has imposed an unusual hardship on the entire industrial organization in many European centers and has

drastically curtailed not alone the consumption of raw cotton, but also of many food items in those densely populated communities.

The general depression of the European cotton textile industry—and indeed that of the United States as well—has been due in part to the development of many textile establishments in such former major markets for cotton goods as China, Japan and India. Although these new Oriental factories are by no means in a position to dominate their domestic trades as yet, nevertheless they do figure materially as a potential deterrent to European textile recovery.

It is true that the consequent diversion of the requisite portion of our raw-cotton shipments from transatlantic to transpacific channels has taken up a good portion of the slack in this trade; at the same time the crippling of the food consumption of such once attractive markets for American farm specialties as the great textile areas of north-central England has indubitably retarded our trade in many lines.

There is one angle of the situation that is of special interest to our farm-products export trade. Dozens of delegations of European industrialists, bankers, labor leaders, economists and other observers have visited the United States during the past few years to examine the causes of our greater economic stability. Almost without exception these visitors have carried back the message of mass production, standardized methods and labor-saving devices. But it is difficult indeed to see how our equipment and industrial methods, whose origin is so largely due to

the stimulation of labor shortage, can possibly be applied where precisely the opposite condition prevails. Indeed, the social and political perils of any wholesale transference of labor-saving devices from the New World to the Old would seem to be obvious. There are admitted opportunities and needs for such improvements in the equipment of certain industries, but, unless carefully controlled and gradually brought about, the widespread application of American technique might, in fact, actually involve serious dislocations to the older and more rigid European industrial systems and might thus cause still further embarrassments to the buying power and food consumption of the factory districts involved.

A further characteristic of the recommendations of these European observers is their almost uniform failure to envisage the importance of mass consumption as well as mass production in the American system. In other words, the extraordinary advances in American wages (which to-day stand at about 260 as compared with a 1913 index of 100, whereas in the United Kingdom, the most advanced in this respect of European countries, the index is 180) clearly indicate the translation of industrial prosperity into buying power. The labor difficulties which have been harassing Germany, the United Kingdom and other parts of Europe, and are still causing grave concern, are hinged to no small extent upon this point of readjustment of the wage scale to meet post-war price changes and to increase consumption. This aspect of the problem is one of the major latent elements which should ultimately contribute

vastly to the further rehabilitation of European buying power.

One substantial contribution to this recovery of European purchasing power has been the impressive increase in American tourist traffic. In 1928 about 460,000 of our citizens went abroad as compared with 260,000 in 1923. Our tourists' expenditures in the Old World last year were not far from $500,000,000, which, incidentally, is more than double the annual interest charges due the United States on all of the war debts. This very substantial amount not only represents an impressive contribution to European buying power but also accounts in part for the powerful stimulation of these very changes in European demand for American food specialties. The connection between the universality of the American tourists in every corner of the Old World and the demand for characteristic American fruits, vegetables and other foods is obvious. Our tourists are contributing not only their dollars but their buying habits in this general transformation and rehabilitation of the Old World.

We are making other potent contributions in the same general directions, each of which is providing its share of stimulus to the transformation and rebuilding of economic Europe. Conspicuous among these is the continued flow of American capital. Our private investors have placed a total of more than $3,800,000,000 at the disposal of Europe, which represents 30 per cent. of our total foreign investments. New advances are moving across the Atlantic in prodigious amounts; the total American purchase of European securities during 1928 was

$654,000,000, and this does not include the very heavy investments of Americans in European branch factories and other industrial enterprises. These vast sums provide the sinews for new industries, new wages, and consequently increased imports of American farm products.

A major phenomenon affecting the trend of imports of farm products to Europe has been the struggle for economic self-sufficiency. This is a characteristic phase of every post-war period in modern times. The Napoleonic wars (as mentioned elsewhere) were responsible for the development of the beet-sugar industry and the manufacture of aniline dyes, notably Prussian blue, as a replacement for supplies once drawn from colonial agriculture—cane-sugar and indigo. So, too, the drastic lessons of the recent war left a grim determination to develop to the maximum every possible domestic source of sustenance.

This came not simply as a reflex of the inevitable nationalistic enthusiasm of every war period, nor was it due entirely to any intended preparedness for the next period of enforced isolation. Each European country has as one of its outstanding problems to-day the wide discrepancy between its imports and exports—the heavy "unfavorable" excess of the former over the latter. Taking the trade of twenty-four Old World nations, we find that in 1926 imports exceeded $17,000,000,000, while exports fell below $13,570,000,000. The balance has been adjusted, of course, through heavy "invisible" transactions, including European tourist services, transportation facilities, loans, etc. Even so, the burden

of adjustment is heavy, and consequently we find every European nation assaulting the import column with a view toward the reduction of its major items, notably in certain groups of food staples.

The details of this widespread European effort are worthy of our very careful attention. In the case of Germany, for example, the report for 1927 of the Agent-General for Reparation Payments indicates that the German Government "regards it as a particularly important duty to reduce the necessity of importing foodstuffs by increasing the intensiveness of agriculture." This problem is admittedly capable only of gradual solution, and it is unlikely that any drastic curtailment of agricultural imports is likely to occur within the next year or so. Nevertheless, every effort is being made "by self-control or better management" to restrict purchases of foreign farm products, with due regard, however, to the comforts and improving living standards of the people. Among other things, the customs tariffs, as evidenced by that adopted in Germany in August, 1925, are to be used to aid in accomplishing this purpose. But it has since been recognized that the reëstablishment of duties upon foodstuffs by this 1925 law could proceed only as far as the restoration of native industries would permit; hence the modifications which were introduced in July, 1927, providing for reduction of duties on certain foodstuffs under a schedule which is valid until December 31, 1929. The experiment was evidently a bit premature.

This German measure is typical of others that might be cited from most European countries. They

are also worthy of note because, unlike American tariff schedules, they are subject to change almost without notice, simply by the issuance of executive decrees. From the point of view of the interested exporter—and indeed the general development of stabilized mutually beneficial trade—this peril of abrupt and frequently decisive changes in tariff schedules is one of the gravest difficulties in the way of the restoration of European commerce in all commodities.

Indeed, the same applies to many other phases of international trade regulation in the Old World. Out of one group of 180 Old World trade treaties and conventions, no less than 153 were for one year or less. Naturally, it is well-nigh impossible to develop business upon such "one-night-stand" arrangements, and trade is therefore being carried on "in tents," as it were, subject to eviction on a few hours' notice, instead of under the more substantial and mutually far more advantageous conditions of stable permanent arrangement.

The campaign for economic self-sufficiency continues along various lines, particularly as to foodstuffs. The "battle of the wheat" in Italy will be discussed later (see p. 235). It may be noted here that, according to the report of Commissioner Steere of the Department of Agriculture, the campaign has thus far not been conspicuously successful. Indeed, according to his statement, there now seems little doubt that Italy will be the largest wheat importer on the Continent this year (1928) and will take a larger quantity than ever before. The import needs of other Continental countries seem likewise to be

well up to the standard levels of recent years, although the more drastic curtailments of the trade (as in the case of Poland and Italy, where wheat imports and exports have been respectively prohibited) are having a slightly deterrent effect.

One interesting aspect of this struggle toward self-sufficiency (from the point of view of American farm exports) has been the new program of the British Imperial Marketing Board. This organization was launched in May, 1926, with the frank intention of drawing the various units of the empire more closely together and of giving the privilege of supplying the mother country's import needs to the dominions and colonies rather than to outside sources. As yet, not much actual progress has been made, but the board proposes to use a substantial fund of five million dollars annually for a series of far-flung projects involving trade in many farm products. These will include scientific research for the further development of empire crops, including tobacco and cotton, the improvement of live stock through intensive research, the development of more satisfactory marketing methods, and in general a far more pretentious campaign than any that has hitherto been evident in the program for imperial preference. In this connection it may be noted that Britain's dependence upon us for the major item of our exports to her has already undergone some modification. Before the war, she was buying from the United States 75 per cent. of her total cotton imports, but the figure has now fallen to 60 per cent. Meanwhile, the portion contributed by her colonies has risen from 3 to 10 per cent.

Various types of trade barriers that are being encountered by our farm products upon entry into European trade are mentioned in the chapter beginning on page 73.

The laws governing the marking of foodstuff containers have been at times a severe and even occasionally discriminatory obstacle to our farm exports—particularly the matter of requiring most elaborate detailed information on cans as to their contents and the methods of their preparation. Fortunately, the peak of excesses in this tendency seems to have been passed, and there have recently been commendable instances of moderation, as in the case of the disapproval by the British Government of the proposal that imported eggs be marked on the shell as to their origin, and the abatement of certain more stringent marketing qualifications in several of the newer states, where the extreme nationalism of the immediate post-war years seems to have subsided.

The over-eagerness of some Continental countries to rebuild their domestic agriculture and particularly to recoup at one bound their wartime trade losses has been responsible for a continuance of many sharp practices and discriminations. These have given our shippers of foodstuffs considerable cause for justifiable complaint. For example, exporters of California canned and dried fruits are still harassed with flagrant cases of the pirating of their trade-marks in central Europe, the sale of inferior local produce misrepresented as imported American grades, and similar unethical practices. Fortunately, these are not widely prevalent, but cases do occur

with sufficient frequency to indicate the necessity for the utmost vigilance on the part of our traders and government representatives, to assure American products a just and proper protection against such commercial malpractice.

CHAPTER VIII

AMERICAN INVESTMENTS ABROAD

THE total of our private loans in foreign countries is at present about thirteen or fourteen billion dollars. In other words, every man, woman and child in the country has a stake of $120 in these oversea interests, which is about six times the per capita amount in 1914. This, of course, is exclusive of the eleven billions of war debts owed to our Government. We have heard much in recent years of the transformation of the United States from a debtor to a creditor country, but the expression of that change in cold figures makes a truly astonishing picture. Just before the war broke out, our investments overseas totaled about two billions, and foreign investments in this country were estimated at about five billions. These foreign holdings here are now about three and a half billions and are gradually climbing as European savings increase and conditions become more stable.

In other words, our international financial balance has undergone a transformation since 1913 from the minus three billions into a plus ten or eleven billions.

But behind those figures there has developed a truly dramatic and immensely significant situation

in our international trade balance, one that affects not simply bankers and economists but every industry and trade, indeed every individual in the land.

Space will not permit an analysis in this connection of the vast political repercussions of this whole problem of foreign loans. Such financing has figured conspicuously as a powerful element in international diplomacy throughout the last century. The world's political relationships have been deeply affected in such instances as American loans and investments in Cuba, which played a vital part in bringing on the Spanish War, and those in Haiti, Santo Domingo, Central America and Mexico, the French loans to Russia and more recently to Poland and Czechoslovakia, Japanese financing in China, and that of the British in the Near East and Asia. The problem is closely linked up with all the recent interpretations of the Monroe Doctrine, and with the development of the Drago Doctrine (named after the Argentine publicist), which protests against armed intervention for the collection of debts. It is directly connected with the widespread post-war missions of financial experts to rehabilitate the fiscal machinery of more or less backward countries—for example, the Kemmerer investigations in Ecuador, Bolivia, Colombia, Chile, Poland, etc., or the Millspaugh mission to Persia. These are all problems of profound significance, but with their chief connection fixed upon politico-economic rather than strictly commercial questions.

These private investments of ours now yield annually about $740,000,000 in interest, which is one of the largest of that important group of *invisible*

items which I discussed in the preceding chapter, and which are so vital in the balancing of our international bills. Incidentally, that figure collected by our bankers, without any audible indications of cancellation on their part, is more than three and a half times the $209,000,000 paid to our Government by European exchequers as interest on the much-discussed war debts.

Incidentally, we have become more or less hardened as a result of wartime experiences with this pastime of tossing billions hither and yon; another handful of zeros more or less does not seem to make much difference. In that regard we apparently have all the nonchalance of astronomers chatting of infinity or relativity, or of geologists gloating over the ages of some of their pet rocks. An interesting indicator of what these particular billions of dollars really mean is revealed in the fact that if one were an omnipotent safe-cracker and pickpocket and could go through all of the vaults and pocketbooks in the land, scooping up coins and paper bills, the total heap—all of our money now in circulation —would contain just about five billion dollars. In other words, we have shoved across the international table in foreign investments as our stake in the world's peace, order and prosperity a sum more than two and one half times as great as all the actual money now in use in this country.

Now this raises some rather interesting questions. In the first place, is it not a bit fantastic to suggest that we have sent abroad two and one half times all of the money that we have? And even if that be possible, does it not seriously impair our domestic

credit supply? Are we not hampering our own business position by such apparent liberality to foreign enterprises? In any case, should we not through our Government or through industrial or financial pressure exert some direct control upon the outpouring of this vast tide of resources so as to insure the protection of our industrial and financial interests?

In the first place, it is obvious that the fourteen billions now invested abroad have been accumulating there for some years. Furthermore, a foreign loan is a credit, not actual currency shipped abroad. It finds its way overseas either in the form of merchandise shipped directly from our shores or in the shape of credit readjustments with other countries.

As for governmental control, it may be said that our Government does not exercise any such regulation nor does it presume to pass on the general soundness and economic merits of such loans. Any intrusion of governmental machinery upon such a problem would involve the injection of politics into one of the most highly dangerous fields. It would subject our Government to accusations from abroad on the score of "economic imperialism" to a degree hitherto undreamed of. The only relationship of our Government to this particular phase of the problem is that exerted through the State Department, which, as a result of conferences between the bankers and President Harding's administration in 1921, has taken the stand that the Government cannot look with favor on three types of loans:

1. Those for unproductive purposes, such as military expenditure or mere budget balancing. Advances

of the latter type would be nothing but subsidies to inefficiency and slack fiscal methods.

2. Those to foreign raw-material monopolies which might exploit our consumers. Under this heading the administration has on various occasions expressed its disapproval of loans to the Franco-German potash cartel and to the Brazilian coffee monopoly. The bankers have alleged that this position did not prevent the potash and coffee interests securing adequate funds in Europe in which it was reported, indeed, that some American participation was actually arranged. Thus, they allege, the intentions of our Government were completely frustrated, and only ill will toward us was engendered in Brazil, Germany and France. Regardless of whether this was or was not the case, or whether enterprises operated with such loans would encounter our anti-trust laws (as happened in the Sielcken coffee case shortly before the war), it has been clearly demonstrated during the debates in Congress, and in the discussions in trade circles and among large consumer groups, that any direct American financing of such oversea monopolies would immediately arouse the bitterest resentment here and would be certain to stimulate legislation which might become most regrettably extreme in its reactions upon all of our oversea financing.

3. The administration disapproves of loans to nations that have not yet funded their war debts to the United States. This has, however, been rather broadly interpreted in the case of France and Greece.

In certain chronically anti-American circles abroad

there has been a good deal of agitation and alarm as to the danger involved in the accumulation of overwhelming financial power in the hands of any one nation. This vast predominance of ours, it is felt, may be dangerous to the highly sensitive economic organisms of the world. The hysteria of such criticisms may be brushed aside as more or less obvious propaganda. It emanates largely from what Roosevelt called the "lunatic fringe," which is universal and infinitely more voluble than the great mass of sober-minded citizenry. The specter of this "menace of the American Moloch" disappears immediately when it is recalled that British investments before the war exceeded our present total by nearly 50 per cent. and yet there was no world-wide alarm over that situation. Even to-day British holdings in foreign countries exceed eighteen billion dollars, but one cannot discern any widespread denunciation of England as a "swollen, callous colossus of money-bags" or any of the other vituperative epithets now being hurled at the United States. Nor is any alarm expressed as to the impossibility of the world's being able to meet the charges upon these British investments; nor was any embarrassment encountered in pre-war days when the purchasing power of money was far greater than we find it now.

Instead of being a peril in any degree whatsoever, the lending ability of our people has been and is to-day one of the most potent factors in the restoration and advance of the post-war world. As Mr. Hoover once said: "By contributing to peace and economic stability, by the loan of our surplus savings abroad

for productive purposes, we can contribute to the elevation of the standards of living in foreign countries and the demand for all goods." In 1920, with reference to the economic demoralization of Europe, he pointed out that "there is only one remedy and that is by systematic permanent investment of our surplus in reproductive works abroad."

The mention of foreign loans probably calls up all too frequently the recollection of dreary-looking, fine-print advertisements headed "Kingdom of Graustark" or "Republic of Ruritania" and bristling with an array of forbidding terms like debentures, amortization, or tongue-twisters like Aktiengesellschaft or Aktiebolaget, calculated, perhaps, to drive any ordinary reader hastily into the sporting section. And yet there are abundant illustrations of concrete commercial realities and even of human interest and picturesque romance behind almost every one of these. For example, last January the republic of Greece borrowed seven million dollars in the American market. One of the chief beneficiaries of this loan was the Refugees Settlement Commission, which had charge of the rehabilitation of more than one and one half million wretched exiles from Asia Minor—a population nearly equal to that of the State of Connecticut. These homeless wanderers have been restored as useful producers and consumers of the world's goods, and the effects have already been evident in our exports to the motherland where they have been repatriated.

Mention of the River Shannon probably conjures up a vision of verdant hillsides, bosky dells and plump, golden-voiced tenors singing "Where the

River Shannon Flows," but right now that romantic stream is more apt to be associated with a great new hydroelectric development financed through a $15,000,000 bond issue recently floated in New York. The introduction of ample cheap electric current is bound to have a profound effect upon the whole economic fabric of the Irish Free State, which has been hitherto all too dependent upon a rather harassed agricultural development supplemented only by a few meager industries. Once again the effect upon Ireland's demand for American commodities and upon her dependence on remittances from Irish-Americans is apt to have a decided bearing upon the trade balance and general fiscal status of that struggling young republic.

Nearly $170,000,000 of American capital has been invested in Poland in the last ten years. These millions have gone into public utilities, which have not only profited American construction companies and equipment organizations very materially, but have also made profound changes in the well-being of the Polish people. The contributions thus effected toward better living and higher consumer demand —through improvements in street-car systems, municipal markets, gas plants, etc.—have all stimulated new purchasing activities and created markets for literally scores of American specialties—motion-picture films, household equipment, kitchen utensils, cheap automobiles—quite apart from the machinery and other heavier installations directly involved in the operations of American construction concerns.

The Germans have been, next to the Canadians, the largest borrowers in the American market, hav-

ing secured about $900,000,000 here since the war. Much of this investment has been in industries frankly in competition with our own, but, as in the case of Poland, large sums have also gone into public utilities, which have directly stimulated consumer demand incident to better living conditions.

Our exports to Colombia and Venezuela averaged about twelve million dollars a year just before the war. In 1927 the total was almost eighty-five millions. It is true that much of this sevenfold increase (one of the largest recorded in any of our oversea markets) was accounted for largely by heavy shipments of oil-well machinery, piping and railway equipment. But there were also most significant increases in our sales of numerous minor specialties —cheap phonographs, antiquated radio sets, films, bicycles, motorcycles, etc.—which were directly due to the general expansion of prosperity and purchasing power resulting from the increasing wages paid by the large American oil companies and fruit plantations.

Here is a further illustration of this relation between loans and exports as applied to one specific undertaking, which is a type of evidence rather difficult to obtain: A large American organization, which has some eighty million dollars invested in its operations in a certain foreign country, has been importing into that country from the United States every year since the war an average of $3,700,000 worth of machinery, material, equipment, etc. This does not take into account the food, clothing and other articles imported for consumption by the concern's employees, whose purchases have, of course,

been greatly stimulated by steady advances in wages. Another similar concern in the same field has imported from the United States in the course of nine years nearly fourteen million dollars' worth of merchandise.

In southern Norway there is a factory in which $15,715,500 dollars of American capital has been invested and which is turning out cheap fertilizer for the world's farmers.

A typical example of American investments in Canada, which have reacted powerfully upon our sales to our northern neighbor, is the ten million dollars put into one enterprise by our capitalists last year which has produced a whole new town and provided wages for hundreds of workers. This is just one of the reasons why Canada has for the first time become our best foreign market, passing her mother country in that respect, with a total purchase of our goods that exceeded $850,000,000 in the fiscal year 1927–28, or fifty million more than the United Kingdom is taking.

Of course, it would be absurd to allege that we have been impelled solely by altruistic ideas in these dealings. The private loans by American investors have been straight business transactions. Our people have put money into enterprises abroad because of the especially inviting yields or the terms of these loans.

And that is why a special responsibility is assumed by our bankers in issuing such loans—a responsibility that can be met only by the exercise of the utmost care in investigating and appraising the various economic, legal and political phases of every

issue. Our investors and their local bank advisers are largely inexperienced in these matters. They have a right, therefore, to expect that bankers will be even more conservative in indorsing foreign loans than they are in passing on domestic ones, whose soundness is more readily ascertainable. The average investor does not know much about the financial status of foreign provinces or cities of which he may not have heard since he left grammar school. He must rely almost wholly upon the good care and judgment of the issuing banker. The latter may feel that his interest ends after collecting his commission, but if he hopes to return to this new and attractive field in future years, he should bear in mind that authentic, frankly complete information on every issue is the best assurance of a sustained fruitful market for foreign securities in this country. James Madison once said that "popular government without popular information is but a prologue to a farce or a tragedy." This applies quite as much to the financial as to the political activities and interests of our citizenry. Facts are the securest foundation stones of any business enterprise.

An important phase of this whole question is the problem involved in our increasing investments in branch factories in foreign countries. Considerable apprehension has been expressed of late in industrial and labor circles as to the sinister consequences of this development. In some isolated instances this alarm is perhaps justifiable. If we turn to England's experience, there can be no doubt that the establishment of textile mills in Brazil and jute factories in India have done material damage to Lancashire and

Dundee. There is a question, however, as to whether this oversea industrialization could have been avoided. In each case upon analysis it is revealed that special circumstances were responsible: high tariffs against finished goods in the case of Brazil, or the proximity of cheap labor and raw material in the case of India. British capital in both of these instances, therefore, took the only available course of attempting at least to control the oversea development rather than have it drift into competitive hands. In this manner the production has in some cases been confined to lines or markets in which competition with British products would not be so embarrassing.

In the case of our own industries, there have been numerous developments of this type. Our exports of shoes to several Latin-American markets have been considerably reduced through the development of native factories, but these in many instances have been under American control, and in several cases the American exporters affected are now doing a larger business with those markets in findings, supplies, etc., than they were previously in the finished product. This was also the experience with a well-known rubber company in its trade in raincoats and allied lines; the company is now making greater sales in rubberized cloth and other supplies for native industries in various South American countries than it enjoyed previously in the finished garments. There is an American branch factory in Japan which recently secured a large order for South America. This raised the cry of "cheap Oriental labor competing with American workmen." But on closer in-

vestigation it was evident that the American home plant could not have secured the order in any case as against European competition, and the success of the branch in Japan, therefore, was indirectly a distinct gain, in that it meant more demands from the branch for American supplies and equipment, to say nothing of the profits accruing to the parent house.

The industrialization of China has been causing some alarm in recent years because of abundant cheap labor. It has been feared that this would curtail our fabricated exports to that market. This, however, has by no means been the case. Our sales there have risen from $35,000,000 in 1913 to $102,000,000 in 1927—and that in spite of all the turmoil and civil war during the past decade. Chinese textile factories have made no appreciable headway against our Far Eastern cloth trade. For the most part their products are not in competition with ours but rather with lower grades produced by Japan and England.

One of the paramount issues in connection with the growth of our oversea investments has been the development of a policy of control by our bankers or industrialists to prevent unfavorable reactions on our own welfare. Such controls are known as "ear-marking"—namely, the stipulation that a part, perhaps all, of the proceeds of the loan shall be expended by the borrower in the lending country. This practice, though common in Europe, has made little headway here as yet. On one point, however, our manufacturers have insisted with some effect—namely, that when the proceeds of the loan are to be expended the specifications of the bids involved

must be non-discriminatory. We have a right at least to an "even break," and our official agencies abroad have been especially vigilant to see that this is assured.

Ear-marking definitely restricts the buying freedom of the borrower and therefore discourages his recourse to such markets where it is actually imposed. Indeed, it has been the experience of some European bankers that the practice develops a definite feeling of resentment on the part of the borrower, which finds expression at times in very embarrassing fashion. Compulsory trading of this or any other sort never makes for that *mutual* satisfaction for both parties which is indispensable in successful modern business.

Our American investment bankers have been warned that unless they proceed warily in this field, with every precaution against the stimulation of undue foreign competition through such loans, they may destroy the American industries which, so to speak, are producing the very funds that are being used in the given loan or investment. Governmental control over such loans is obviously out of the question, as I have indicated above; the perils of such bureaucratic paternalism are too evident to require discussion. There are, however, other devices which are being suggested. In various European countries considerable use is being made of interlocking directorates; that is, the same executives sit both on the investment bank board and on that of the given industrial enterprise; consequently, the bank will be careful not to finance a foreign enterprise competing with the native industry con-

trolled by the bank's officials. This was a conspicuous feature of Germany's oversea activities just before the war, and there are occasional evidences of the practice in our own recent experience in one or two South American countries.

The anxiety of American labor over this stimulation of oversea industry through American loans is beginning to find expression through the increasing ownership of shares among employees in large enterprises with branches abroad, or with such prestige in financial circles as to command some respect among investment bankers.

Then there is the vital problem as to the payment by foreigners to us of the vast amounts of interest due on these ever-increasing loans. This sum totaled $740,000,000 in 1927, and the query has arisen as to whether we are hampering such payments through our tariff policy in defense of our own industries which compete with those whose products our foreign debtors wish to export to us. This apprehension has been expressed for years, but it ignores the fundamental fact that such international obligations are by no means necessarily settled through the *direct* interchanges of goods between debtor and creditor.

As I have indicated, the amount owed to us as interest on our investments is more than balanced by one item alone—namely, our tourists' bill abroad. So when some blue-spectacled prognosticator asks with alarm, "How are the poor foreigners ever going to pay such an enormous sum in annual interest to our American bankers?" we can truthfully reply that we are paying it for them when we take our

pleasure jaunts or business trips abroad. Every dollar spent by the 500,000 American travelers who swarm in foreign countries each year, whether it be for opera tickets in Vienna or Cook's tours to Stratford, is a contribution toward the adjustment of amounts owed to us by foreigners.

This tourist item played a vital part in the recent discussions with France regarding the French war debt and her tariff policy on American merchandise. It was revealed that whereas the interchange of merchandise between the two countries was "unfavorable" to the French, since we sold them about $225,000,000 worth a year and bought from them less than $150,000,000 worth, nevertheless the largest single item on the Franco-American balance sheet was an invisible one very much in favor of France —namely, the $225,000,000 debt which we owed her for taking care of our tourists.

The position of the United States as the greatest investing nation in the world to-day is one of responsibility no less than of opportunity. It affords no basis for flamboyant jingoism or economic rantings. The great financial resources of our people are something to be utilized carefully, discreetly, without ostentation or undue aggression—with a just regard for the general welfare and for our own proper interests at home and in foreign lands. There should be no shortage of capital for domestic purposes, and it may be said with confidence that no such shortage impends or is in sight.

This vast fund of capital, which we are pouring into the pool of the world's business at the rate of four or five million dollars a day is an invaluable

contribution to prosperity in general. And prosperity anywhere is "all to the good." It is something that no one nation can or should hope to monopolize. We do not gain from the presence of adversity or depression elsewhere. It is greatly to our interest in cold dollars and cents to have business booming in all parts of the world, to find ourselves surrounded by contented, busy neighbors. That is one of the surest guarantees of international order and goodwill. Political disturbances spring from economic unrest, from depression and misery. Mr. Hoover has well said that the "making of loans to foreign countries for productive purposes not only increases our direct exports but builds up the prosperity of foreign countries and is an economic blessing to both sides of the transaction. Trade grows on prosperity, not on poverty. Trade is a coöperative effort among nations to secure the greatest total output and total consumption."

CHAPTER IX

OUR INTERNATIONAL CASH-BOOK

EVERY so often some one of our exuberant point-with-pride patrioteers bursts forth with emotional zeal over our supposed opulence as demonstrated by what he calls "our favorable balance of trade"—namely, the excess of exports over imports, which in 1927 amounted to about 700 million dollars. Or, again, some equally ardent viewer-with-alarm will fill the air with lamentations because of our ungracious treatment of our European wartime associates, whose economic recovery, as he sees it, is being obstructed by our trade policies which are hindering the settlement of their international accountings. Or still another mournful critic will berate us because we are not doing right by our Argentine friends, in similarly upsetting the even balancing of the interchange of goods between our country and theirs.

Now all of these plaints or plaudits sound plausible enough; in fact, a bit too much so. The solution of such a grave question as the adjustment of international trade balances is a far more formidable and complicated problem than these almost naïve statements indicate. This topic of international obligations and their adjustment—involving as it does such highly contentious matters as foreign debts and tar-

iffs, trade barriers and commercial policies—lends itself to fervid flag-waving and to the mental gymnastics of those astounding geniuses who can walk on both sides of a fence at the same time. It is a perennially favored theme of after-dinner and political oratory, and we heard much of it—pro and con—during the recent open season for that pastime.

Then, too, the subject is none too familiar to the average audience, and our nimble-witted spellbinders are consequently tempted to be a bit—shall I say liberal?—in their statements, as was that worldly wise traveler who, on discovering that his fair listener had never been to Brazil, announced, with beaming satisfaction, "Ah! then I can speak freely about the extraordinary bird-seed foundries in that land of wonder." For all too many of us, I fear, this mystery of our international balance of payments is just one more bird-seed foundry—interesting, if true. But in any case, "What of it?" Why should we ordinary mortals be excited about such vague and intricate problems which—if they worry any one at all—should be trusted to the tender mercies of economists and politicians?

Nevertheless, the problem is one of profound importance which affects directly the daily lives of every single one of us, from the time we take our morning coffee, which must be paid for eventually by some adjustment of trade balances between ourselves and Brazil or Colombia, until we close the day by putting out an electric light, some of whose important ingredients likewise required one after another operation in international trade balances.

If you are endowed with normal curiosity you

may be tempted to ask some of our orators a few pertinent—perhaps to them even *im*pertinent—questions. Are we sure that the trade balance between any two countries—namely, the movement of goods—represents everything of value that passes between them? And is it highly essential or even possible that interchanges of goods between any two countries be exactly balanced, as for instance between the United States and Argentina? Does the "obstruction" of merchandise imports (assuming that they are obstructed by our prohibition laws or tariffs—which may or may not be the case) necessarily mean the stifling of all means of payment of the obligations of the countries whose exports are thus being impaired?

The answer in each case is an emphatic "No."

The subject deserves a thoroughly scientific and simple analysis, instead of being cluttered up with microscopic tabulations in the cloistered seclusion of professorial studies on the one hand or befogged with the gases of torch-light processions on the other. The Department of Commerce has therefore been undertaking annually to present an impartial, factual statement of our international balance of payments for the preceding year. These statements tell a story of concern to every one of us who pays taxes, who took a cup of coffee this morning or a bar of chocolate this afternoon, or who rode home in an automobile—because our international cash-book tells the story of how the coffee, or the chocolate, or the rubber in the auto tires was paid for—how the eighteen billion dollars of our nation's business with the rest of the world was settled.

Like individuals, nations must consider the relation between their income and their outgo in their dealings with other nations. Unless we know whether our receipts from abroad exceed our obligations, we cannot develop with any businesslike, orderly plan all of the profoundly important policies involved in those relations—the formulation of our tariffs, of our debt-collection program, our commercial treaties, our trade-promotion efforts, our merchant-marine policy and all the other elements of our relations with the rest of the world, which are growing steadily more complicated, more intimate, more widespread with every advance in our living standards and every improvement in aviation, in long-distance telephony, in radio communication and in faster steamship service.

First of all, with reference to the so-called "favorable" balance of trade—namely, the excess of exports over imports: such a situation is not necessarily a justification for that amiable satisfaction so frequently expressed by our flag-waving orators. By confining their observations simply to the transmission of goods between the United States and any other country, they leave out some of the most vital elements in these relationships—namely, the ones dealing with the so-called *invisible* items. In 1927 our interchanges of merchandise with foreign countries, the *visible* exports and imports, totaled a little over nine billion dollars, but this amount was almost exactly equaled by our invisible exchanges—invisible because they had to do with the buying and selling of services which do not appear on our custom-house records: money loaned and borrowed abroad,

expenditures of tourists, remittances of immigrants, charges for freight services on shipping, for cable and radio messages, for insurance premiums paid to or collected from foreigners—these and a dozen other items are all quite as important, in gaging the ability of any country to settle its debts with other countries, as is its ability to export or import merchandise.

It has been urged by some Latin-American countries that our trade with them should be more evenly balanced, and to bring this about they will buy less from us and more from Europe. But these critics forget that the industries and products of any two countries are never so exactly reciprocal as to make their exchanges of goods absolutely equal. We buy two and a half times as much from Brazil as we sell to her, simply because we need her coffee in greater abundance than she needs our automobiles, machinery and other exports. To infer, therefore, that we ought to buy more from France or Argentina in order to equalize our trade balance with them is to propose a futile form of arbitrary trade control for which there is absolutely no foundation in the needs of the consumers in each case; and in the last analysis it is the consumers who determine these matters.

As for the proposition that our international balance is favorable because it shows an excess of exports over imports, this presupposes that the whole story of our foreign transactions is told after we have tabulated the things which we have bought and sold abroad, whereas I have indicated that the amounts we may owe or have coming to us for

services are apt to be of equal importance. We sold the world in 1928 over a billion dollars' worth of goods more than the value of merchandise imported, but the favorable balance was only slightly greater than the sum which we owed the rest of the world for services rendered to our citizens as tourists. In addition, we owed for interest on loans, for freight services rendered by foreign ships and for the other items that I have indicated. In fact, it is the usual thing for a newly developed country to have a heavy favorable balance of trade, because it is exporting bulk raw products in vast quantities to pay for very heavy invisible items, such as interest on loans for the construction of its railways, the services of foreign shipping, and other charges for the use of the capital of older countries, which it has not yet been in a position to accumulate. And correspondingly, therefore, the trade balance of an older country is apt to be unfavorable because it must import great quantities of food and raw stuffs which it is no longer able to produce within its borders, and because it must receive in goods the interest on its foreign investments and payment for its special services which do not appear in the statistics of the custom-houses.

And that is why every one of us is concerned in these apparently obscure details of international trade balances. All of us depend for daily comfort and well-being upon hundreds of items which can only be bought abroad. The interest in this topic and the rapidly growing appreciation of its importance are shown by the astonishing increase in the number of requests for information about it which

have been coming into the Department of Commerce from all over the country, not simply from a few professors or international bankers, but from thousands of others—for example, small investors who realize the direct connection between the value of their newly acquired foreign bonds and the mechanism for their ultimate liquidation. To the average citizen the subject is no longer a matter of solemn academic discourses about the exchange factors and debt payments and other so-called imponderables. We are quite evidently becoming internationally minded in the best sense of that term, not from any maudlin sentimentality, but through an increasingly widespread appreciation of our everyday contact with these world problems.

Our total dealings with foreigners in 1927, as I stated, amounted to more than eighteen billion dollars. This was "our international turnover"—about $152 for every man, woman and child in the Republic; and if you count that up for the circle of your own family, you will realize what stake each one of us had in this matter. Even with our vast domestic resources, such a sum is far too formidable to brush aside as of no consequence. You, personally, may not be a world trader or a shipper or an international banker. But the firm for which you work may be intimately dependent upon a company or public utility heavily interested in some imported raw material or some foreign market or foreign bonds. Consequently, its prosperity—and therefore your job—are directly involved in the status of our international balance, for it is that balance which determines the rate of exchange governing the val-

ues of all such transactions. Vast though our domestic interests may be, the weight of that eighteen-billion-dollar stake abroad may be more than enough to turn the scales from depression to prosperity, or vice versa, for millions of our people.

But your connection with this whole problem, you insist, may be that of only an occasional vacation tourist and your only interest in the mysteries of international trade balances may consist in being sure that the balance on those fateful stubs in your book of traveler's checks comes out right. Nevertheless, it is well to realize that those convenient little blue slips which you transform abroad into an improvement of your French, or your culture, or whatever it is you acquire abroad, must be liquidated eventually by our merchants through the export of goods, or through the performance on our part of some comparable service for foreign travelers in this country. In other words, every time you buy a post-card in Paris, or pay a museum fee in Berlin, or a tax on a hotel bill in Italy, some one must see to it that a corresponding value of American merchandise or services has set up a credit abroad to meet that bill.

And so by rendering services to our tourists the foreigner is in a position to meet his obligations to us as individuals or to our Government. In 1928 our 460,000 tourists spent approximately $900,000,000 in foreign countries—rather a tidy sum compared with such invisible obligations of those countries to us as the $206,000,000 which they paid our Government on the war debts. One eminent Swiss economist expressed it rather aptly when he said that

the Americans "were a singularly charitable people; their hard-hearted Government and bankers loan sundry billions to Europeans at trying rates of interest, whereupon the said bankers and their compatriots send their wives and daughters over to Europe to pay that interest several times over." This indeed is the ultimate refinement of Yankee philanthropy. And incidentally that figure is not simply a wild guess. We in the department had the help of some 1500 American tourists in reviewing their travel budgets, to say nothing of valuable aid from tourist agencies, banks, travelers' associations and others who live by this major feature in our international economic relations.

Another of these debit items against us is the large sum remitted each year by the 15,000,000 foreign-born citizens within our borders to their families in the Old World, which amounted to $206,000,000 in 1927, an item that figured prominently in the discussions of our war-debt settlements with certain countries, such as Italy, to whom it is a valuable asset. And, too, we had to pay foreigners that year over $149,000,000 for transporting our goods in their ships, about two thirds of our total exports and imports being carried by foreign bottoms.

Of course, all of these invisible obligations are not exclusively against us. Foreigners owe us considerable sums for like services. In 1927 they paid us $738,000,000 in interest on the thirteen or fourteen billion dollars which our citizens now have invested in foreign countries, an amount which is growing at the rate of two or three millions of dollars every

day. This is exclusive of the war debts owed to our Government. Motion-picture royalties due to our film industry from abroad totaled perhaps $75,000,000; in the case of some companies this represented more than 30 per cent. of their total revenues.

There can be no doubt about the vast complexity and far-flung importance of this subject, since so large a proportion of the things we consume, or wear, or use each day in some way or other, find their way to us through the adjustment of the international balances. Your flapper friend or your wife (indeed, your grandmother too, for that matter) won't wear anything but silk stockings these days. This compels our silk mills to buy enormous quantities of raw silk from Japan; and the Japanese are thereby enabled to purchase one of their major needs—namely, raw cotton—from our southern farmers, to work into cotton garments for the Chinese and their other customers throughout Asia. This transaction in turn enables our cotton farmer to get a new and better automobile; and to satisfy his needs we have to import more tire rubber from the plantations of Malaysia and Ceylon. Those planters in turn spend their profits for more cotton goods from Japan or England, or our own mills, and the better wages which they are able to pay provide a market for our outmoded radio sets, for our old-style phonographs, for our sardines, and endless other specialties; and so it is that real trade activity forms an endless chain around the world. That dollar spent for the flapper's silk stockings passes through scores of transactions in the balanc-

ing of international payments, and in every one of them it makes a contribution to a proportionate share of world prosperity.

All of this serves perhaps to explain in some measure why Mr. Hoover has referred to this annual statement of our country's cash dealings with foreigners as "the most important compilation in the entire field of our international economic relations," or why an eminent American banker characterized it recently as "a vivid review of American international life." One's first advice to any person interested in understanding our economic position in the world would be to analyze this balance of payments.

CHAPTER X

PRECISION IN FOREIGN TRADING

THE saga of our selling overseas is indeed a picturesque, almost fantastic tale, in which the sturdy homely virtues of courage and persistence, of assurance and fair dealing, have all played their expected parts. These elemental attributes have been with our traders ever since those earliest days when old Governor Winthrop recorded in his diary with gratification that his shivering band of devout pilgrims had "cleaned up" (that was his good old Elizabethan phrase) some £500 in exporting beaver skins. They continued through the later years when the fathers of the Republic fought two wars with the mother country in defense, among other issues, of the principles of unobstructed commerce and navigation, and when the clipper ships were scurrying like cloudy phantoms across the seven seas and Yankee traders were exporting everything everywhere—even ice from Boston to Bombay around the Horn.

But in this new day a new necessity has arisen; success in oversea selling and buying requires something more than daring and dominant will, more than militant insistence upon maritime rights. In these days of highly sensitive commercial organisms, of closely knit, almost magical systems of communi-

cations, of instantaneous economic repercussions around the world, precision of information is of paramount importance for every merchant or manufacturer, banker or shipper.

For example, there is one foreign legal practice which has worried our merchants and manufacturers much of late—namely, the difference between certain foreign trade-mark laws and ours. In several countries, notably Japan and the Latin nations of America and the Old World, the title to a trade-mark is not determined by actual bona fide use of it in connection with a given product, but is awarded simply to the first applicant after certain formalities, regardless of whether he has ever manufactured or sold the commodity involved. Having once secured title to such a trade-mark through registration in this fashion, he then controls the importation of any commodity under such name. In other words, he is in a position to "levy tribute" or block business as soon as the foreign company endeavors to ship its trade-marked line to his country.

American firms are particularly the sufferers in this injurious practice, because so many of them have no original intentions of going into the foreign field. But these shrewd hawk-eyed "pirates" realize perfectly well that eventually the export effort will be made, and consequently the trade-mark is very neatly "sewed up" in advance. One well-known American typewriter is now being sold in certain foreign countries with its name spelled backward simply because an unscrupulous individual foresaw this advantage and registered its original label name in his own behalf. The company, however, refused

to pay the required blackmail and consequently was compelled to alter the name of its article at considerable cost in manufacture as well as in loss of good-will attained through widespread advertising.

A middle western concern manufacturing a well-known toilet article had scornfully rejected the advice of several competent experts to register its trade name in various foreign countries, even though that name had already cost the company several hundred thousand dollars in advertising and its value would soon be evident beyond our borders. Within a few weeks after the company had bruskly refused the proposal that its name be trade-marked a precise duplicate of its specialty was turned out in one of the largest European markets under the same name. The company ignored the situation, however, until some time later, when a change of management brought in an export department. But that department has thus been already deprived of one of the best oversea fields for its operations through the short-sighted stupidity of the earlier management. The pirated trade-mark and duplicated commodity are already firmly rooted, and a rival campaign would have to be conducted under a new name, with scant prospect of success.

Recently the field agents of the Department of Commerce in one foreign field unearthed an amazingly comprehensive scheme of a body of trade-mark pirates who were just about to consummate the registration of the names of eleven well-known American automobiles which they had discovered by careful research had not yet been sold in that market. Fortunately, the final details of the registra-

tion had not been concluded before the department's agents were able to warn the interested American concerns.

In instances like these just a little knowledge in the heads of the given American executives is a dangerous thing—for the plottings of the would-be pirate. Data on such problems are just the sort of precise and timely facts which are imperatively necessary in these days of hectic world-wide competitive struggle. Once the given trade-mark registration is accomplished by the pirate, there is absolutely no recourse for the American victim except to buy out the blackmailer. The only remedy for this practice is early registration of marks in all attractive foreign markets or, lacking that, an immediate protest during the process of registration by the would-be swindlers, which sometimes covers a period of two or three months.

Here's where the foreign staff of the Department of Commerce can do its part. Its members at every post throughout the world are required to scrutinize daily the list of the trade-mark applicants to discover any potential embarrassments to American firms. Only recently an Asiastic would-be registrant undertook to establish his title to tooth-brushes bearing the name of a well-known manufacturer of tooth-paste. But that company has never manufactured brushes; the intention of the Oriental was evidently simply to capitalize the very large good-will built up by the company through the world-wide advertising of its name. This was so manifestly unfair that through the Department of Commerce a protest was registered and the local officials

promptly collaborated in protecting the rights of the American concern. Hundreds of such episodes are occurring every week.

Incidentally, there is one further bit of information which interested American concerns should have carefully in mind in this connection. The oversea registration of the trade-mark should be in the name of the parent concern and not in that of its foreign agent. Frequently the agency changes hands or is considerably affected by local reverses, or what not, and the trade name of its American connection is thus imperiled. When we entered the World War in 1917 a number of American concerns doing business in Latin America found themselves gravely embarrassed because they had not observed this precaution. They had been represented by native concerns with strong pro-German leanings, which therefore soon found themselves on the black-list of the War Trade Board. The American companies were therefore unable to ship their products to these Latin-American connections; and, what was even more embarrassing, the latter had carefully registered the trade-marks of their American clientele in their own names rather than in those of our manufacturers. Consequently, when our firms endeavored to ship their trade-marked lines to other agents in these markets, they found the way obstructed by their former agents, who thus owned the exclusive right to all commodities coming into their respective markets under such trade names.

The need for precision in international trading spreads, of course, as our oversea interests grow in volume and complexity. This applies not only to

our increasingly diverse trade in manufactured specialties but also to those standard staples upon which we had long been led to suppose there was adequate information in the hands of the great commission houses and other operators.

In fact, the clearing up of this obscurity as to the world trade situation in some of our major commodities has been an outstanding task placed upon the Department of Commerce as the result of thousands of incoming requests. Some repercussions of this far-flung network of fact-finding have been interesting, even dramatic.

The Japanese earthquake occurred at noon on Saturday, September 1, 1923. Within a few hours there was gathered in Washington a group of high officials to make arrangements for relief measures, particularly in the matter of food, which in this case, of course, was largely rice. The question arose immediately as to where sufficient quantities of that essential could be promptly secured and at what price. Various estimates were presented, but finally Mr. Hoover, who was present representing the Department of Commerce, drew from his pocket a single sheet of paper on which were typed the statistics as to the precise position of the rice trade in the Far East as of *Saturday, September 1, at noon,* the very moment of the earthquake.

This seemed to be a piece of almost incredible magic, since it would have been utterly impossible to effect interchanges of cables and to institute the necessary researches over such a vast area within that short interval. Yet the material was all there—figures not simply as to the current rice prices in all

of the leading Far Eastern trade centers but also as to the stocks on hand in important warehouses, the status of crops in the great producing areas around Saigon, and even the quantities afloat in cargo steamers en route to various ports. It was then a matter of moments to flash a series of cablegrams across the Pacific and concentrate the necessary supplies in time to avert serious famine in the devastated area.

But the background of that crisis and its solution was set many years before. Rice was simply one of a series of the world's staples upon which the trade of this country has requested periodic statistics of just this type; and the machinery had been set up and functioning satisfactorily in this regard for years. When the Japanese disaster occurred, therefore, quite fortuitously at the very moment when one of the periodic checks had been concluded by the field agents of the Government, all necessary information was automatically available.

In fact, the origins of that particular situation dated back to the fall of 1921, when the rice industry of California was practically bankrupt. Banks were closing, business houses were passing into the hands of receivers, and farms were being liquidated throughout the Sacramento Valley. The farmers, through their coöperative association, came to the Department of Commerce in desperation for more precise information as to the status of the trade in the great consuming areas across the Pacific. They had been told by various middlemen and commission houses that there was a hopeless oversupply of rice in the Far Eastern markets and that the price would therefore probably continue to be heavily depressed.

The department immediately despatched cable instructions to various consular agents as well as its own staff throughout the East to check up this situation, and the result was a complete refutation of the middlemen's statements. The farm coöperatives thereupon set up direct contacts with the trade in the East, where nearly 150,000,000 pounds of California rice were disposed of in 1922. As a result California rice farmers cleared a better percentage that year than was made on any other cereal crop produced in the United States.

Similar periodic statistical surveys are conducted for a wide range of commodities in response to the requests of their producers and dealers. In the case of flour, for example, the setting up of this regular informational service (chiefly through consular officers) as to stocks, receipts and price trends in the Chinese market has directly resulted in the doubling of our exports of that staple to China since 1925. Checks of the same sort were made in the walnut and almond trade centers around the Mediterranean, and the data thus obtained, in the opinion of the coöperative officials, have saved the farmers of these high-value specialties many hundreds of thousands in the past two years.

Occasionally, however, such data must be secured under considerable time pressure. For example, the Cherry Growers' Association at their annual meeting in San Francisco required some definite information as to the trade conditions of the French and Italian competing crops. A telegram of inquiry was despatched to the department at Washington on a Monday; cables were immediately flashed to the

commercial attachés at Paris and Rome the same morning; and the next afternoon at 1:30 the necessary replies were already on their way through the Washington office to the meeting of the growers in San Francisco. The information involved was quite as "perishable" as the cherries; hence the imperative necessity for speed.

The stabilizing influence of facts is demonstrated again and again every day in the ordinary transactions of business. And it is the persistent demand for those facts that has stimulated the Department of Commerce to equip traders and manufacturers with the necessary ballast of solid reliable data so that their crafts may not be rocked with each passing gust of quizzical trade uncertainty.

Now as never before is there need for economic sobriety, for following things through in the fullest sense of that phrase, for reliance upon the cold packs, so to speak, of simple factual studies, rather than any glorified panaceas, for the relief of business and industrial ills. In this age of spectacular achievement and of craving for instantaneous results, of blinding speed in all things, of hurling pictures and conversations through the air across oceans and continents, it is no wonder that even the soberest leaders in industry and government occasionally are persuaded that cold facts are a bit too discouraging and that "get-rich-quick" policies can be made to serve as magic carpets to whisk the business world off to a paradise of perpetual prosperity.

There is still room for more patient study of that well-tried lesson that the path to economic well-being is not a dream flight through the clouds *à la*

Arabian Nights, but a long, patient, toiling climb up the steep and stony slope—for which there are no legislative short-cuts. And in order to make that ascent with the minimum of wasted effort and the maximum of attainment, we must be equipped with accurate, reliable maps and guide-posts—namely, precise facts. We cannot afford to wander aimlessly through the wilderness "from hunch to hunch." The president of General Motors has most wisely set forth as one of the major principles and policies of that organization the absolute prime necessity of *getting the facts*. In this day of tightening competition, of speed in communication and operation, of limitless multiplicity of detail in industry and commerce and of kaleidoscopic rapidity of change, particularly in the field of national business, we must know exactly where we are going—and how.

CHAPTER XI

CURIOUS BUSINESS: THE QUERIES OF OUR EXPORTERS

A TELEPHONE rings peremptorily in the Department of Commerce down at Washington and an anxious voice inquires from somewhere-in-Ohio, "Do the municipal stock-yards of Antioquia pay profits?" Now at first thought this might seem to be but a fantastic query from some hard-pressed "ask-me-another" addict. It was, however, a bona fide plea for help from a little Western banker who had been called upon to take a block of bonds issued by a province of Colombia. They were secured on the returns of the public packing plants, hence the anxiety of our banker friend to know something of their lineage and good repute. Incidentally, his query was answered within twenty-four hours, not through any superpressure on the radio or cable, but simply because this very question had been anticipated some months before it was asked, at the time that the American commercial attaché in Colombia was advised that this loan would be floated.

But the significant thing in this connection is that a few years ago this query, instead of being so pointed and precise, would have been a hopelessly bewildered one as to whether Antioquia was an

ointment or some dread tropical disease, or possibly a biblical town, or even a Pullman car. Every business day some 10,300 such queries on current commercial problems are left on the door-steps of the department and its branches throughout the country. In 1921 the average was about 700 a day, but even more significant than this almost appalling increase in the apparent curiosity of our business community is the unmistakable improvement in the caliber of the questions. Evidently our everyday business man has learned a great deal of geography —among other things—during this post-war decade.

This daily avalanche of queries shows that in a most emphatic fashion, but it shows many other vital factors in this new day of our commercial and industrial life. It reveals the trend of our commercial interest as to oversea markets and it shows the astonishing increase in the participation of small manufacturers who have evidently overcome their old pre-war inferiority complex as to foreign selling. It shows a truly impressive increase in interest in oversea commercial matters on the part of our inland manufacturers; the essential virtues for success in export—courage, persistence, shrewd, factual planning—are no longer regarded as the exclusive perquisites of seaboard merchants.

Above all things, the precision and conciseness of these 10,000 or more daily queries are a convincing evidence of the substantial improvement in our business thinking and planning. Clearly, our merchants and manufacturers are no longer content simply with orations about Pan-American fealty when it comes to satisfying their curiosity as to our southern mar-

kets; they want actual facts and are intelligent enough to insist upon them.

But before going farther let us have these queries pass in review. So in the words of the circus parade, hold your horses: here come the statistics! During the fiscal year 1927–28 the department received about 2,770,000 inquiries on foreign trade matters. The geographic distribution of these was rather interesting. If you ask the average member of a chamber of commerce whether he is an exporter, he may no longer reply with astonished indignation, as he probably would a few years ago, that he is "certainly not a former employee of the Pullman company"; but he probably will confess that he "does not know much about those Latin-American countries." In other words, I suspect that to a large proportion of our citizenry foreign trade and Latin-American trade are more or less synonymous, but the figures of the actual incoming inquiries show 44 per cent., or about 871,000, calling for data on European trade, whereas only 36 per cent., or 704,000, indicate an interest in Latin America. Far Eastern trade opportunities inspired about 300,000 requests for information; a significant feature of this geographic distribution is the rapid increase in Far Eastern inquiries, which are growing much more rapidly than either of the other two.

In general, throughout the post-war period our Latin-American trade interests have been growing much more gradually than the widespread interest in those countries throughout the United States would lead one to expect.

Considered from the commodity standpoint, the

largest single group of queries was that on automotive subjects. These requests for information exceeded 236,000. Second came the inquiries regarding oversea trade opportunities for farm products, to the extent of 227,000. They were followed closely by 217,000 requests for assistance from those interested in iron and steel exports.

These are our "big three" groups of clients; they rank far ahead of such groups as are indicated by inquiries on specialties (office appliances, safety razors, sewing-machines, cash registers) with 150,000, textile products 129,000, chemicals 126,000, electrical goods 118,000, and lumber 113,000. Trailing behind this secondary group of leaders come, in succession, those interested in machinery, minerals, farm implements, leather goods, paper products, rubber merchandise and shoes.

The inquiries cover the widest possible range, from the grotesque and fantastic to the most prosaic and normal. They form, as I have said, a vivid indicator of the trend of our business interests and of the ever-widening circles of our growing participation in world trade. Apparently our ever-increasing industrial diversity necessitates the combing of all quarters of the globe for raw materials of a most picturesque and almost inconceivable diversity. The demands are pouring in upon the department to aid in these far-flung searches. It has been estimated that the ingredients of the average American breakfast have traveled a total of more than 14,000 miles before they have joined forces to give us a start on a perfect day. Even an ordinary radio set represents the culmination of voyages from the opposite sides

of the globe in order that the essentials of rubber, tungsten, mahogany, silk, long-fibered cotton and other accessories might be brought together. Sometimes the daily 10,000 include demands for data as to the whereabouts of much more fantastic ingredients or commodities or what not. The flair for shoes and pocket-books, even hats and coats, of snakeskin makes life unsafe for reptiles in every remote jungle, and the department is being asked to give the names of possible dealers in far-off tropical centers who might supply, not merely the outer jackets of pythons, but even of turtles, lizards and oversized frogs if there are any. Speaking of the animal kingdom: there is a never-ending stream of queries for data on foreign sources of monkeys, cats, parrots, love-birds, even baby elephants. More than one would-be importer of canary-birds has been distressed to learn that the Canary Islands do not afford an alternative source of supply for those household companions when the usual Hartz Mountain stock is not available. Then come queries from manufacturers of watch-charms for lodge members; but, curiously enough, they are primarily interested in importing camels' teeth for this purpose, rather a novel association for the ship of the desert. Then come anxious inquirers who wish to buy dried flies from Mexico (for the manufacture of paint and of poultry food), of walrus whiskers from Siberia for tooth picks, of dried blood from Argentina for fertilizer, of skeletons from anywhere for medical schools, of skunk oil, of St. John's bread, and of wasps to be used in fertilizing fig blossoms.

An enterprising dealer in hides and skins has dis-

covered that there are 500,000 goats and 1000 camels killed in Mecca during the month of May at the height of the pilgrimage festivals; he wants to know what becomes of the skins of these unfortunate victims—and so it goes.

Each one involves a serious issue of no little commercial significance for the inquirer, and each must be answered not only accurately but promptly, for the most highly perishable commodity in the world is commercial intelligence. A given bit of information may be worth thousands if it reaches the inquirer this afternoon, but be absolutely valueless if it comes to his hands to-morrow morning after his competitor has already been apprised of the given situation.

An increasing number of queries have to deal with the possibilities of disposing of surpluses which are available because of the steadily improving efficiency of our industries, or possibly because of seasonal or abnormal slumps in domestic demand. What becomes of the old-fashioned phonograph horns—those lovely pale blue or radiant crimson and gold morning-glory contraptions? They have long since been supplanted at home by the cabinet or console type of instrument, and surely the manufacturers could not have afforded to make vast bonfires or junk heaps of the antiquated models. They certainly did not. They immediately bombarded the Department of Commerce with requests for outlets overseas, and it was not long before careful searching in the newly prospering oil districts of Latin America and rubber plantations of the Far East revealed an abundance of extra wages combined with

not too sensitive and discriminating ears for music which soon provided the desired outlet. To-day those glorified horns of plenty are piercing the quiet of jungles and workmen's barracks in the tropics all around the world.

The same story could be told of our outgrown or discarded radio sets, of countless types and styles of wearing apparel, musical instruments, furniture, and so forth. Cheap automobiles may have driven bicycles nearly off our streets, but by dint of careful widespread searching, profitable outlets abroad have been found for nearly 54 per cent. of our total production, and the industry is in better shape than it has been for years.

An interesting outlet for abandoned derby hats was revealed as the result of an inquiry which came in not long ago. It appears that some Central American Indians had caught sight of one of these iron helmets and had been fascinated with its possibilities as a mark of their aristocracy. Inquiries as to sources of further supplies were answered not only readily but with delirious enthusiasm by the owners of dusty stocks in our hat trade. To-day no self-respecting aborigine in that section is without this indicator of affluence. And incidentally, one local trader has cultivated the same market along a slightly different line. A desperate clock manufacturer had been referred to that section as a possible outlet for a surplus of cheap alarm clocks during the post-war depression. These soon found their way into the huts of the aborigines for purposes of music and entertainment quite as much as timepieces. A final touch, however, was afforded by a trader who re-

tained the keys in each case and assessed a five-cent service charge for each winding.

The surplus problem is one of perennial difficulty; it vexes particularly the manufacturers of seasonal goods, who are among the most constant clients of the department. There was, for example, a successful dealer in a certain type of tennis racket who was able through increasing efficiency to meet his entire domestic demand with a six-months operation. Confronted with the quandary as to whether he should shut down during the rest of the year, thereby bringing distress to his pay-roll and piling up the unproductive overhead, he sought the aid of the department and, as the result, an extensive export campaign was mapped out in three sport-loving territories down on the other side of the equator where tennis is in full blast while we are on skates and snow-shoes. To-day more than 45 per cent. of his output is sold in Australia, Argentina and South Africa.

There is a small soap factory in a middle western town which specialized on violently perfumed and colored toilet soaps for the trade of the near-by factory workers during the silk-shirt war boom. Its neighbors confidently predicted a collapse as soon as the slump came, and were amazed, when the bottom dropped out of things in 1921, to see that the plant went right along on full time as though nothing had happened. Its executives had had the foresight to avail themselves of the facilities of the department in order to build up two or three substantial outlets in widely scattered markets overseas, so that when the pressure came at home a little

added effort in these foreign markets soon took up the slack. By that time they had been well intrenched in Central America and Malaysia; they had learned the tricks of the trade—some of them perhaps not entirely creditable, such as the marking of their packages as products of La Belle France, whereas a more accurate mark would have been La Belle Ohio. In their case an inquiry in time saved many an anxious moment with the balance-sheet later on.

Sometimes the problem of taking up the slack abroad is not so easy, as, for example, when the department is called upon to find a market overseas for short hair accumulated in barber shops, or for animals discarded from circuses and zoos on account of incompatibility, or for edible bullfrogs—though in the latter case a temporary outlet, at least, was actually discovered after long search in Japan. Some 67,000 inquiries came to the department during 1927–28 regarding the vexations of trade barriers —mostly discriminatory customs tariff procedures.

Recently a well-known American engraving company asked the help of the department on a problem which illustrates the characteristic subtleties of indirect foreign discrimination against our wares. It appears that a South American country wished to have a new batch of currency engraved. The specifications for the contract stipulated "paper exactly like that used in United States Government bills." Now this looked at first like a graceful compliment to us, but as a matter of fact that qualification was inserted by a crafty European competitor who knew that it was against our laws for any American com-

pany to be in possession of paper of that description; consequently, if the clause had been allowed to stand, all American competition would have been very neatly eliminated. But hasty and emphatic representations by the American commercial attaché at the request of the American concern resulted in a prompt readjustment and the business was secured for the United States.

Still another interesting example: Canned soup has become more or less of a national institution with us, and several well-known companies have spread its gospel in all parts of the world; but in one very attractive market a leading line—namely, chicken soup—has encountered a formidable barrier, and the department was immediately bombarded with earnest calls for help from the interested companies. It appears that the pure food laws of that country require certificates of ante- and post-mortem examinations of the canned birds to be issued by an official of our Government. But our meat inspection laws do not apply to poultry, and long weary months of negotiations failed to bridge that gap, so the delights of chicken soup were withheld from our foreign friends. Finally, the American commercial attaché, collaborating with the Department of Commerce Foodstuffs Division and the Department of Agriculture, secured a concession of the waiver of the ante-mortem examination, and a special system of inspection was evolved which was satisfactory to the foreign officials. The results have been that the American companies have already built up a tidy six-figured trade in that market and one more delectable

item has been added to the pantry shelves of our foreign friends.

In fact, our foodstuffs seem to be more or less chronically vulnerable as they venture to various foreign markets, judging from the numerous queries received from harassed exporters. A pet trick of our foreign competitors seems to be to discover some ingredient or container—peculiarly of the rival American product—and then slyly insert in the customs regulations or the pure food laws of the given foreign market a stipulation of especially high tariff rates or intricate restrictions hampering the entry of American wares.

A latest instance is that certain of our canned products are expected to be protected by having the cans lacquered on the inside. Cohorts of outraged American packers backed by grim phalanxes of their scientists armed with batteries of microscopes and biological tomes all march on the department to register their protests and submit their problem with becoming indignation. After prolonged negotiations with the appropriate authorities and many solemn interchanges of technical formulæ, the problem is solved in favor of the American type of can and a very important market is opened up for our foodstuffs.

The stabilizing influence of facts is demonstrated again and again every day in the ordinary transactions of business. The price of antimony, a relatively cheap metal, is never stable. It is an invaluable product as an alloy for hardening lead and tin. It figures prominently in the manufacture of type,

pewter and numerous metals used in bearings. This widespread demand for it, coupled with the fact that it originates largely in the hinterland of tumultuous China, has presented an economic opportunity to speculators.

Every passing change in the woefully chaotic Chinese situation was exploited as a factor in price fluctuations. Early in 1926 a group of the leading American consumers appealed to the Department of Commerce for more precise information upon the Chinese market situation. As a result, a cable report service was set up whereby at ten-day intervals an authentic, officially tabulated picture of the trade situation was flashed through departmental agencies in collaboration with the consular staff to about forty American firms. The results in price stability were very interesting. During the spring of 1926 the New York figures on Chinese antimony ranged from 9 cents to 25 cents. The information service was inaugurated in June of that year, and the price variations during the remainder of 1926 fluctuated only from 12½ to 16½ cents and the variations in 1927 were approximately within the same range. This has been appreciated by producers as well as consumers; the president of one of the largest Chinese corporations indorsed the service as "invaluable and absolutely impartial"—quite different from the reports sent out by speculators or importers to suit their purposes only.

The range of inquiries addressed to the Department of Commerce often descends from the heights of elaborate economic investigations to more or less picturesque or unimportant details. One anxious

manufacturer inquires as to the best markets abroad for glass eyes, the location of their greatest per capita consumption, with variations as to color for each market. Another wants to know the size of the feet of the various peoples of Latin America and the percentage of population there who go barefooted. (The data were compiled for him from information on the purchases of shoes for armies and governmental institutions.) Then there is the anxious expert of an accident-insurance company which wants statistics on the number of arms broken as a result of cranking automobiles in different parts of the world—rather a difficult assignment. A patent medicine export manager wants to know the best climates for rheumatism—"best" presumably from his point of view. One of our leading manufacturers of mortician supplies requires help as to the burial practices in all parts of the world, which brings down upon his head an avalanche of references to literature on the religions of all lands, and so the variety goes with a never-ending series of changes through each of the daily 10,000.

Problems of translating trade-marks and popular sales slogans recur constantly. Sunmaid seedless raisins encounter difficulties in China because the sun is too closely associated with Japan to contribute much in the way of popularity at this time, and the native characters for "seedless" are the same as those indicating "son-less"—which to the Chinese head of the family is a matter of humiliation and disaster. Local predilections for certain colors are giving our exporters of wearing apparel and of household equipment constant difficulty, but they

are quite ready students of ethnology even though they may not recognize that forbidden term. One of our most successful exporters of cotton cloth knows all about the tabooed color schemes of aboriginal tribes throughout tropical America. A leading Pennsylvania linoleum manufacturer ousted his British competitor almost within a few weeks' time by the simple device of having the designs of popular native fabrics properly duplicated in his own floor covering. Our exporters of underwear and garters to the lucrative Far Eastern markets have discovered it is quite feasible to cultivate a trade in these indispensables for outside ornamental decorations, provided that their color schemes are sufficiently gaudy.

As I have indicated elsewhere (p. 90), the universality of the American film has started a regular prairie-fire of enthusiasm for American specialties. We have seen the results in the steadily mounting figures in our exports of bathing-suits, office appliances, ready-made clothing, automobiles, automatic venders, electric refrigerators and countless other everyday necessities in the United States. The South American business man sees a film of a Wall Street magnate in the midst of batteries of adding machines, calculators, newfangled filing devices and multigraph apparatus, and he immediately resolves to surround himself with the same scenery of opulence, even though he may not qualify in other respects. Hence, one more query added to the department's daily ten thousand.

Occasionally our specialties run into unexpected snags. A foreign governmental tobacco monopoly

discovers that the pernicious chewing-gum habit tends to curtail the consumption of certain tobacco revenue producers and promptly decrees that no gum shall be sold in cigar stores or other places where it might compete with the government monopoly. Our automatic cigarette lighters bring unexpected woes and even consternation to the ancient match monopolies of various governments, and, as a result, all sorts of taxing devices and other restrictions are placed upon the former. Even the well-established practice of our clothing dealers in selling two-trouser suits meets with the unexpected protest of at least one Far Eastern buyer that "the two trousers may be beautiful, but they are entirely too warm and uncomfortable for tropical latitudes."

Cropping up every day is the ancient and still persistent problem of the best types of packing, but the old legend of our inefficiency in that respect has been completely obliterated since the war. And no wonder; certainly no nation ever enjoyed such a supremely unique opportunity to learn the lessons of the best and most economical packing as we did during our struggle with the prodigious task of feeding and clothing two million men across the Atlantic. The results of that lesson are evident today in the packing rooms of almost every factory in the land.

Sometimes we carry our super-efficiency a bit too far, as did one hosiery exporter who insisted upon using his de luxe individual cartons for a shipment to Mexico, in spite of the warning that the socks be done up in solid wads packed in a barrel. Such outrageous treatment of his superior merchandise

seemed to him little short of sacrilege, but he did not realize that his Mexican client knew exactly what he was talking about when he made the original request. When the bewildered American shipper inquired of the Department of Commerce as to the grounds for the resultant protest from his Mexican client, the answer was simply that the Mexican tariff is levied upon the gross weight of the merchandise and its immediate container, and his Mexican customer, therefore, quite rightly protested against being compelled to pay tariff on sundry pounds of cardboard as a silk fabric. Incidentally, the answer to this container problem is sometimes the final determinant of success in developing a given trade. For example, we dominate the flour trade of the Amazon as against our Argentine competitors because our flour comes in barrels which are very useful as compared with Argentine sacks, which do not survive the humidity of equatorial Brazil.

Every traveler can report instances of the amazing utility of the American oil can, which serves countless purposes as cooking utensils, water carrier, and even building material. Indeed, tin in many cases makes three different trips to our shore; first, as the bulk raw material; second, as a returning second-hand oil can used as a conveyer of vegetable oil from Asia; and thirdly, as toys from Japan made out of these same cans flattened out as scrap and exported across the Pacific.

And so the problems continue to mount each day —by no means as indicators of any anxiety or alarm on the part of the steadily increasing numbers of our merchants and manufacturers who are discover-

ing the possibilities of oversea trading, but rather as an indication of their awakening appreciation of those opportunities. Our business men of to-day need more information than their predecessors a decade or two ago because modern business is infinitely more complicated, not only by the multitude of specialized fields which have grown up since the war, but also by the enormous improvements in communications and transportation, which have made relationships much more intimate among once isolated trade centers throughout the world.

The mileage of our telephone cables has increased in the last dozen years from twenty-two to sixty million—an incredible expansion of the "nervous system" of our business life which may be taken as just one example of the tremendous stimulus to the desire for information and the importance of its gratification. The magic of the radio, the astonishing achievements of aviation, the complete transformation of marine engineering, the vast spread of electrification—all have made it both necessary and possible for the business world to command an array of timely precise facts.

The business man of to-day can no longer exist in comfortable isolation, even if he wanted to. He must know what is going on in his special field, not merely locally but in the far-flung parts of the world, if he hopes to survive. He must be prepared for repercussions upon his business from remote areas which were entirely beyond his comprehension or interest a decade ago.

Our foreign trade before the war was made up largely of self-selling staples—cotton, tobacco, ce-

reals, meat—a passive commerce requiring relatively little sales information on our part. So far as manufactured exports were concerned, 90 per cent. of them were in the hands of fifteen or twenty large companies which had the resources and world-wide organizations to secure their own trade data.

To-day, on the other hand, we have, in the first place, a multitude of small manufacturers and dealers prosperously engaged in export, which would be an impossible field for them unless they had at their disposal the impartial, fact-finding services of government agencies. These small or moderately sized establishments are now the backbone of our oversea trade efforts.

But there are obvious perils which must be avoided in the development of such an official information agency. In the first place, it must not become paternalistic. Nothing could be more disastrous to its ultimate efficacy than to have it degenerate into a permanent crutch upon which inefficient, chronically feeble enterprises might continue to wabble along at public expense. It must be confined strictly to facts of a sort not obtainable from private agencies and must emphatically not undertake sales assistance, advisory functions and responsibilities, which can and ought to be borne by private individuals or companies.

It cannot be too emphatically stressed that brevity is an indispensable virtue of all such trade reporting. The average business man is impatient of profound doctrinaire theses and impressive monographs. What he does expect from government service of this type is, first of all, reasonably accurate

data presented in useful form and, above all things, in time to be of practical value.

The most highly perishable commodity in the business world to-day is commercial intelligence. The business man wants facts to an end, and the end is profits. He is not interested in collecting specimens for a mercantile museum.

After all, the most reassuring feature of this whole situation is the evident widespread realization on the part of business men as to the necessity for their familiarity with such facts and the best means of using them. All of us have suffered through interminable after-dinner orations on the glories of our foreign commerce, our merchant marine, our tremendous manufacturing energies, our vast domestic market, etc., but these torrents of emotionalism and patrioteering will carry us nowhere and indeed will do nothing but disturb the smooth currents of our business progress unless they are properly appraised and guided by an intelligent use of facts.

Part III

COMPETITORS AND CUSTOMERS

CHAPTER XII

THE "ROMAN EMPIRE" OF BUSINESS

FROM the point of view of general American public interest and discussion, there is no question but that Italy and the vivid personality of its leader occupy the center of the European stage. And, moreover, Italy has made sufficient progress in these past few years to arouse the keen attention of every intelligent observer of international business. Its program is fraught not only with importance to the renaissance of Europe as a whole, but also with reactions upon our own economic affairs in numerous vital respects.

When the Italian flier de Pinedo completed his almost incredible feat of linking Rome and the Americas, both North and South, by air—an achievement which, for prolonged determination and invincible courage, deserves to rank among the immortal adventures of aviation—this sustained Odyssey was too frequently referred to as "just a wild stunt." But such manifestations of skill, endurance and sheer courage, or such victories as that of the Italian hydroplane in the Snyder Cup races, go far to prove that the race which produced Cæsar and Vergil, Columbus and Dante, Napoleon Buonaparte and Marconi, is not by any means reduced in its latest days to mere superficialities.

When it comes to a calm, dispassionate appraisal

of Italy's position in the world of business, the roseate glamour of fervid adulation on the one hand and the fires of partizan invective on the other rather seriously distort the picture. It is difficult to see clearly when there is so much warmth in the atmosphere.

The problem of evaluating so dynamic a situation in terms of everyday commerce and industry is indeed complicated, if not perilous. One suspects that there must be American reactions and interest involved in such a far-flung and highly volatile program of national development. Many of the problems, it is true, are largely political and therefore do not come within the purview of a business survey such as this. Nevertheless, with our increasing commercial and financial stake in Europe, it is obvious that there must be phases of interest to us even in such questions as the "mastery of the Adriatic," "the economic exploitation of North Africa," or "the revival of the old Roman bond with Rumania."

In other words, the question of Italy's economic advancement is by no means confined within the shores of the peninsular kingdom. Its repercussions are being felt throughout economic Europe. Doubtless it came as a surprise to some American industrialists that the recently announced agitation for a European automobile cartel to combat American domination of world trade in that highly important field was led by Italian concerns. The election to the presidency of the International Chamber of Commerce of Alberto Pirelli, the distinguished industrialist whose truly extraordinary acumen, energy and "world view" qualify him to sit with the busi-

ness leaders in this country or any other, is but one significant indication of this new leadership of Italian business, of which we may expect to hear more in the future.

Even Mussolini's enemies admit that the solidity of his control has freed the country from some severe labor and other economic dislocations, though it may have involved political hardships—which are not part of the present discussion.

Briefly summarized, his economic policy in general is to secure the maximum degree of self-sufficiency for the country. The approaches to that titanic task have been along many lines—commercial, industrial and fiscal. It has naturally involved many contacts with the United States: possible competition in Latin America and Europe, contributions of American tourist expenditures and investments in Italian rehabilitation, and the curtailment of imports of such major American export commodities as can be produced in Italy or her African possessions, notably wheat, tobacco and cotton.

It has also involved inevitably a degree of governmental intrusion in business which in some respects is diametrically opposite to the accepted principles of the United States. This does not necessarily mean a condemnation of the Mussolini program, which must in fairness be judged in the light of local conditions and practices. It is conceivable, however, that some of its phases may involve points of difference similar to those which have arisen recently between the United States and certain countries in which governments have deemed it necessary to enter upon international business operations and

controls, as in the case of French potash, British rubber, Brazilian coffee, etc. Fortunately, Italy has not been involved in governmental monopoly schemes of this type, though there have been complaints in international trade circles with regard to gasoline sales controls, subsidies or refunds of foreign customs duties on automobile exports, and one or two other problems of minor significance.

The first and most obvious objective in this program has been the curtailment of the unfavorable trade balance. In pre-war years Italy's imports exceeded her exports by about 51 per cent., their average during 1911–13 being $690,700,000 and $457,600,000 respectively. The average excess of imports during 1921–25 was more than 57 per cent. This situation has been somewhat improved, the totals for 1927 being $1,050,000,000 for imports and $850,000,000 for exports; the excess of the former was therefore cut to about 33 per cent. On the basis of figures for eleven months, the Italian trade balance in 1928 was more unfavorable, but this is generally believed to be a temporary phenomenon due to the industrial and trade readjustments to currency stabilization.

Stabilization of the Italian currency unit, the lira, was legally effected at the end of 1927. Variations during 1927 were due to the Government's deliberate program to raise the value of the lira, and this increase was followed in December, 1927, by definite stabilization at $0.052631. The lira has since remained approximately at or slightly below the stabilization point.

It is believed that the readjustment of the eco-

nomic life of the country to the new currency basis will be completed during 1929 and that conditions will materially improve. The chief remaining problems are the reconciliation of the cost of living with reduced wage-rates and of Italian prices of export commodities with world prices; the former is now presenting the greatest difficulty.

The country is going through a period of drastic readjustment as a result of these rigorous measures taken in the valorization of the lira, whose current quotation is at 5.28 cents, as compared with the low point of approximately 3.27 cents in August, 1926. The consequent lowering of the price level is now under way, a preliminary step having been taken in a series of wage reductions which have aroused considerable discontent because they have preceded the fall in the cost of living.

There has been considerable unemployment in various Italian export industries. On the whole, however, the unemployment situation has been materially improved in recent months. The figure stood at 414,000 at the beginning of 1928, whereas it is now (November, 1928) in the vicinity of 265,000, or a decline of 35 per cent., one of the best records of any of the major European nations in meeting this grave problem. It is true, however, that a large part of the improvement was due to reviving agricultural activities. The unemployment situation in industrial circles is still grave, though it is gradually lessening in such lines as textiles, industrial chemicals and mining. With the application of the mammoth scheme for land reclamation, hydroelectric development and road improvement, to which refer-

ence will be made presently, it is expected that unemployment will soon reach negligible numbers.

There is one difficulty, however, which may be encountered as the scheme gets under way. It contemplates the employment of approximately 260,000 persons. On the face of it, this would at once wipe out the above-mentioned unemployment total, but it is difficult to see how the industrial artisans who are now jobless can readily be shifted over to farming and road building. Such migrations and shifts of labor, though not uncommon in this country, are apt to be far more difficult of accomplishment in the more settled social order of the Old World. There can be no doubt that such a vast program of public works will at least ease the unemployment problem, but the fundamental benefits will come in later years after the projects shall have been completed and paid for.

The reclamation plans of the Italian Government are certainly of imposing proportions. They call for an expenditure of some 400 million dollars during the next fourteen years, half of it to be paid by the Government and the rest to be loaned by it to landowners for thirty years at a nominal rate. These expenditures will be for drainage, irrigation and farm equipment. The latter will be procured whenever possible in Italy, but it is reasonable to suppose that the general increase of interest in up-to-date farming methods will provide attractive opportunities for American merchants. This formidable program contemplates improvements on a total of something like five million acres.

In addition to this ambitious scheme, more than

a hundred million dollars is to be spent on roads, on which, it is announced, more than 40,000 men will be active before the end of 1929—again a promising outlook for trade opportunities which American manufacturers should be able to capitalize. This will provide a complete national system of good roads, opening up many hitherto unused arable areas and mineral resources. It will tend also to ease up the strain of urban concentration, which in recent years has been a serious problem.

The raising of these vast funds is a titanic undertaking, especially in its initial stages. The road program is to be based upon funds secured from taxes on salt (which have been trebled for that purpose), tobacco, alcohol and bachelors. The bachelors are assessed about five dollars a year, which yields a total of about four million dollars.

It is estimated that the unimproved lands considered in this scheme now yield only about $130,000 annually in taxes, but after improvement they are expected to pay more than $5,250,000 a year. The greatest direct benefit to the treasury, however, is expected to come through the turnover tax on land sales, which is 10 per cent.

The improved buying power of the lira has naturally given encouragement to those interested in increased importations, but these have been sharply checked through the lag in the recovery of manufacturing due to the stringent credit restrictions through government measures, and because of the slackening of industrial operations consequent upon the rapidity of the improvement of the lira, which raised Italian prices in terms of gold above world

levels. Importations of such major items as iron and steel scrap, pig iron, copper and machinery declined during 1927 to 8.35 per cent. below 1926. Our shipments of cotton to Italy in 1927 were 33 per cent. below those of 1926. In fact, our total exports to Italy declined about $54,000,000 below the annual average for 1921–25.

Italy's status as a debtor nation has been complicated also by the decline in immigrant remittances owing partly to the effect of restrictions imposed by the United States and to the withholding of immigrant deposits in Italy because of the rise of the lira. There is reason to believe that such withholding of deposits has involved very considerable amounts.

Emigrant remittances have always been an important item in Italy's assets, but the decline of her emigration, partly due to our restrictions but more particularly to the stringent limitations placed upon outgoing Italians by the Mussolini régime, has impaired this asset. An indication of the effects of this policy is seen in the figures of total emigration, which stood at 872,600 in 1913 but had fallen to 228,000 in 1927. Mussolini's purpose in restricting emigration is to retain within the country the maximum portion of this "human asset," for which he believes abundant opportunity of employment will develop as his program of public works gets under way.

Tourist traffic is another item which is of vital importance to the physical rehabilitation of Italy. Unfortunately, 1927 was a bad tourist year, and the stiffening of the lira exchange has further deterred

the visits of that increasingly large proportion of our travelers from the student-teacher class. Nevertheless, as prices are readjusted in accordance with the Mussolini program it is hoped that this important item may again contribute to the rehabilitation of the country.

Let us review now, briefly, a few of the major aspects of Italy's economic position—commerce, industry, agriculture and shipping, each of which indicates certain vital phases of the new program of the Mussolini régime with special reference to the relationship with the United States.

The major factor is, of course, the bond of commerce between the two nations. Much has been said of the supposed impairment of Italian export trade to the United States either through the rise of competing industries in this country or through the effects of the Prohibition Act, or the tariffs upon shipments of certain Italian products. It is interesting, therefore, to note that the figures seem to refute this theory, since we are in almost exactly the same *relative* position in her export trade as we were in 1913, before any of these supposed obstacles intervened. We ranked second as a market for her products in the pre-war year, taking 10.7 per cent. of the total. Our share in 1927 was almost exactly the same—namely, 10.66 per cent.—which again put us in second place to Germany. It would appear, then, that we still afford Italy *relatively* just as attractive a market as we did in pre-war years.

In point of value our imports from Italy have more than doubled, having risen from a pre-war average, 1910–14, of about fifty-one million dollars

to slightly less than 109 million in 1927. Even with liberal allowance for price increases, this still represents a substantial volume increase. In fact, in terms of percentage it is easily the best showing of growth in our imports from any European nation.

On the side of our exports to Italy, the trade has likewise shown a 100 per cent. increase in value since pre-war days, having risen from sixty-six million on an average in 1910–14 to 132 million in 1927. Once more this gain is one of the best percentage increases in any of our European trade contacts. Furthermore, it represents a gratifying increase in our share of Italy's total imports. In 1913 we supplied 15.5 per cent. of her total purchases abroad, which put us third to Germany and Great Britain; but last year we took first place with 19.6 per cent. It may be said, then, that the trade relationships between the two countries are distinctly encouraging, and in fact afford a basis for substantial mutual gratification, regardless of misrepresentation by partizan agitators on both sides.

In the factor of Italian competition with the United States in the markets of the world, a particularly interesting element is the material advance of Italy in the markets of North Africa. Mussolini's commercial legions have marched into this ancient Roman territory in the track of the legionaries of his predecessors and have indeed made very substantial headway in such markets as Egypt, Tunis and Morocco. It so happens that our trade has grown in the same areas in almost equal proportion. There has been some rivalry in cotton goods, motors and electrical supplies, and it is quite evident that

our dealers in these lines may expect more intensive competition as the pressure in Italy's home trade becomes more acute.

Italy's old racial ties with Rumania are being strengthened, and Italian wares are appearing throughout the Balkans and Asia Minor—markets in which they are likely to encounter some rivalry with American goods.

Italian interest in the Latin-American market is obvious, and its course has naturally taken a steadily upward trend. With the curtailment of immigration to the United States, the tide has turned toward Argentina, Brazil and other attractive areas in temperate South America. During the past three years the total number of Italians going to the Atlantic seaboard of the southern continent has exceeded 75,000 annually. Nearly a third of the population of Argentina and more than a million persons in Brazil, according to some estimates, have at least a considerable admixture of Italian blood and, indeed, several of the leading public men in both of those great commonwealths have been of that descent. A significant commercial factor in this matter of immigration is the point that much of it is seasonally migratory. Thousands of Italian harvest hands, through their annual trips back and forth across the equator, never know the hardships of winter, and this living bond, perennially renewed, becomes a potent force in transmitting commercial and economic impressions between Italy and the new lands of South America.

Italy's share in Argentina's imports has risen gradually until to-day she supplies approximately 9

per cent. of the total, whereas the proportion of France, England and Germany has in each case declined. In fact, Italy and the United States are the only major commercial nations whose actual percentages of the imports into most of the Latin-American markets have shown a steady growth over their pre-war portions. In volume, the trade is as yet modest, the exports from Italy to Argentina, Brazil and Chile totaling in 1926 slightly less than ninety million dollars. Nevertheless, it is growing, especially with the sharp stimulus of eight active chambers of commerce on the ground and of consistent efforts on the part of the Mussolini régime to capitalize commercially the advantages of racial relationship. Tours by the Italian crown prince and by several commercial missions in splendidly outfitted "floating trade expositions" have accounted in part for this situation.

The work of the National Export Institute, a semi-official trade-promotive agency organized in July, 1926, has also expedited this program. This organization has set about the creation of a competent information service, the analysis of export prospects, the coördination of Italian banks and insurance companies in financing foreign business on a more reasonable basis for the Italian exporter, and, in collaboration with other governmental agencies, in a program of export credit insurance.

Italy has had her share in the further stimulation of the Pan-Latin idea, which has likewise appealed to Spain and France as a possible counteractive to the Pan-American agitation of recent years.

One very gratifying feature of Italian-American

commercial relations as distinguished from those between the United States and some other major European markets is the fact that there are no discriminations against American wares in the peninsula. The trade relations between the two countries are covered by the most-favored-nation treaty whose equitable régime goes back almost half a century. There are, of course, preferential arrangements for the trade between Italy and her colonies.

In their study of the comparative colonial policies of various powers the United States Tariff Commission experts have indicated that the Italian Government evidently has in mind primarily the general development of the colonies themselves rather than the exclusive reservation of their trade prerogatives for the merchants of the mother country.

With reference to administrative restrictions on trade, there has been only one that has given any concern to American merchants—namely, the limitation on the export of hides and skins, particularly calfskins, the best grades of which are understood to originate in the Italian Alps. As soon as these difficulties arose, however, the Italian Government promptly indicated a reasonable attitude in endeavoring to relieve the hardships of the American producers, and a satisfactory export quota for the latter was soon established. Italian limitations with regard to marking requirements on canned goods have given some difficulties to our Pacific coast exporters, but since these regulations are uniform on native products as well as imported ones, there is no ground for complaint and the American trade has apparently adjusted itself to the requirements.

American merchants at times have complained about the rigorous enforcement of the Italian restrictions on imports of plants and fresh fruits for sanitary purposes, and of other phases of the rather stringent customs inspection procedure—alleging that these are really for the protection of native industries as well as for ostensible sanitary purposes. This problem seems to be universal, however, and has been alleged by foreigners in various cases of our own procedure, as well as that of many other nations.

There are certain phases of Italian industrial development which have been decidedly noteworthy. Among these is the extraordinary expansion of electrical power. This has served not only to modify or at least to hold stationary the requirements of imported coal, but also to stimulate the manufacture of exportable commodities. Italy in 1926 had some 2,300,000 horse-power developed from her waterfalls and rivers. In this respect she leads all Europe by a substantial margin, France coming second with two million, followed closely by Norway, Switzerland and Sweden, in that order, ranging between 1,900,000 and 1,300,000.

The impressive expansion of the power industry is shown in the figures for the production of kilowatt-hours, which rose from 1,961,000 in 1913 to 7,644,000 in 1926. No major nation of the world can show a greater proportionate growth than this. The development is very largely in northern Italy, where the greater part of the 5,000,000 potential horse-power of water-power in the peninsula is located. It should be noted, however, that some of the most

recent and ambitious projects are in other regions, such as Sardinia and Calabria. Much of the capital used in power development has come from the United States, which is true also of some of the equipment and engineering direction. The total capital involved is more than five times what it was in 1914. The development is materially encouraged by a government subsidy of forty lire per horse-power for a period of fifteen years for all hydroelectric plants erected since 1919.

One outstanding feature of this powerful development is the curbing of coal imports. In pre-war days these constituted one of the major items of Italy's imports from foreign countries. It was therefore natural for Mussolini, in connection with his economic self-sufficiency program, to make every effort to minimize the importance of that item. This he has evidently accomplished, since the quantities of coal brought in are almost exactly the same now as in pre-war days—10,600,000 tons in 1913 and 10,700,000 last year, indicating that the widespread expansion of industrialization throughout the peninsula, especially in the northern part, has not involved any additional importations of foreign fuel.

Italy's rayon industry has made remarkable strides. In fact, she now occupies first place among European producers and is surpassed only by the United States. The output has risen from about 6,000,000 pounds in 1922 to nearly 45,000,000 in 1927. The Italian enterprises figure conspicuously in the international joint controls, mergers and other forms of coördination which are prevalent in that industry. Indeed, this commodity has become

one of the most substantial contributors to the highly prized export program of the Fascist régime. The shipments have been doubled in the last two years and probably exceeded thirty-two million pounds in 1927. In her aggressive campaign to exploit the world's markets for rayon, Italy's trade drive has been carried into many areas where her wares had hitherto not been particularly conspicuous, such as British India, Ceylon and China.

Italy is the leading silk-producing country of Europe and is exceeded only by Japan and China in that highly valued industry. Nearly 200,000 employees are engaged in it, in all of its various branches. In this field, however, Italian trade has been encountering some stiff competitive obstacles, particularly from the Japanese in the American market and from substitute products of one sort or another, notably rayon, in the once lucrative German trade. The country's woolen and cotton industries have suffered in the world-wide depression in those commodities, despite the advantages enjoyed through lower wage costs.

The Italian automobile manufacturers are manifesting a progressive spirit. It is interesting to note that in spite of an Italian tariff, equivalent to about 70 per cent. *ad valorem,* many lower-priced American cars have been enjoying a considerable market in the peninsula, but the possibilities for further motor trade are still vast. Italy has only one car for 254 persons, as contrasted with one to forty-one in England, one to forty in France and one to 137 in Germany. There is still considerable room for road improvement and for the further exploita-

tion of the home demand by native companies, which are now largely dependent upon export. At present about 61 per cent. of the total output is sold abroad, as compared with 13 per cent. in the case of the United States.

Turning to agriculture, we find two phases of special interest to American farmers in Mussolini's campaign. First, he has almost obliterated our exports of tobacco to the kingdom. Our sales to Italy were approximately forty-five million pounds in 1913, but shrank to a little over three million pounds in 1927, with prospects of almost complete disappearance in another year. On the other side of the ledger, we note that Italian production rose from 18,700,000 pounds just before the war to more than 88,000,000 pounds last year. The industry itself is far below the American level with reference to quality of output, but the displacement of shipments of our Kentucky and Tennessee tobaccos has, nevertheless, been accomplished and, incidentally, has contributed to the depression of farming in those States.

Mussolini's "battle of the wheat," however, has been less successful. In spite of strenuous efforts, Italy's yield per acre was last year almost exactly the same as the average in five years immediately preceding the war—namely, 15.9 bushels per acre. The total production was only slightly greater, with the result that imports per capita have been consistently sustained. About 77 per cent. of the total supply of wheat consumed was produced in Italy during 1909–13, whereas the figures for the last three crop years have been roughly 78, 72 and 63

per cent. It is evident, then, that in this particular respect Mussolini's effort has not yet succeeded, but it is far from concluded.

Lastly, and in some respects most spectacularly, the efforts in shipping stood out as one of Mussolini's real triumphs in his whole economic program. Italy is to-day fourth in merchant-marine tonnage, after Great Britain, the United States and Japan; she was in eighth place before the war. Her tonnage has risen since 1913 from 1,274,000 tons gross to nearly 3,400,000. This expansion was largely tonnage of the most modern and efficient types. Italy has been exceptionally successful in her adaptations of motor equipment for vessels, in which respect she ranks third in the world. Mussolini has carried forward an aggressive subsidy system on an elaborate and carefully graded basis, certain "indispensable" lines receiving grants which last twenty years, and others being aided in periods from five to ten years. The total payments now approximate 200,000,000 lire, which are distributed to approximately 25 per cent. of the tonnage noted above. This new tonnage has a large and rapidly increasing earning capacity which contributes a most substantial item on the favorable side of Italy's trade-balance ledger. In fact, some estimates of the total annual shipping earnings have run as high as $100,000,000.

Aviation, cables and the radio are also used as important links in the far-flung plans of commercial aggrandizement. The air traffic is substantially subsidized by the Italian Government and includes links to Athens and Constantinople, to Vienna, and across the Adriatic to Albania, in addition to serv-

ices within the country. Mussolini's authorities claim fourth place for their country in the mileage of civil air routes regularly maintained, and the recent triumphs of Italian planes in various international matches have given vigorous impetus to the farther expansion of this highly important arm of the new program.

Mussolini has long appreciated the value of Italian cable links with the New World as part of his politico-economic strategy. The year 1925 marked the inauguration of two highly important services. In March the one between Rome and New York was opened, and in October that to Buenos Aires was put in operation. The one serving South America is entirely Italian-owned, while that to the United States is partly Italian and partly American. Other links in this network of commercial nerves have been laid in different parts of the Mediterranean.

The radio likewise has played its part in this program. Service was inaugurated with Argentina in the latter part of 1924 and with Brazil early in 1926.

Clearly, Mussolini's economic strategy, like other phases of his régime, is based upon vigorous action through highly concentrated governmental authority—apparently a bit impatient at times with the stern requirements of economic law, but nevertheless a comprehensive program using every possible asset and overlooking none of the newest improvements in the many vehicles for international trade relations. For the time being its drastic necessities have imposed burdens that have evidently been ex-

cessive on certain vital items; the readjustments incident to the revalorization of the lira have taken toll of the entire system. But from the point of view of American commerce, there are reassuring elements in Italy's gradual rehabilitation on the basis of a policy which, while driving toward economic self-sufficiency, presumably does not contemplate the impossible extremities of isolation. Such a policy, when carried out with due regard for that fundamental principle of all sound business—mutuality of advantage—is certain to bring the two countries to new heights in the advancement of their long-standing commercial relations.

CHAPTER XIII

THE NEW GERMANY

Of all the world-wide readjustments during this dramatic decade since the armistice, the experiences of Germany have, beyond question, been the most amazing and spectacular. Indeed, that sorely tried nation has been something of an economic laboratory in which profoundly significant experiments have been worked out, in some cases at tragic cost and in other with ultimate substantial benefit to the rest of the world. Her descent into the dark abyss of complete currency chaos developed a series of experiences which have had their repercussions in the subsequent efforts to solve the same problems on the part of half a dozen of her neighbors. Her war-time isolation and post-armistice necessities resulted in a series of astonishing advances in the application of new synthetics to industry—laying the groundwork for that corner-stone of her entire industrial structure—namely, the chemical group.

She has led the way in the formulation of that much discussed device, the international cartel, a logical development in view of her own experience in the field of combines, pools and other forms of joint control. Similarly, post-war necessities have provided fertile ground for the exploitation in her factories of the so-called "rationalization" idea, with

special reference to the applicability of numerous American practices. With her shipping almost entirely eliminated as a result of the war, she has had a clean slate upon which to develop a completely new type of modernized mercantile marine, notably through the use of motor engines. In the field of export trade her experiments, which have been keenly watched by her competitors on both sides of the Atlantic, have included numerous variations of export insurance, coöperative selling, international trade propaganda through such vehicles as expositions and "floating fairs," as well as other interesting new devices.

In a word, the new Germany has been a land not simply of complete change as compared with her pre-war internal economic status, but also of profound variations in her relations to business beyond her borders. She holds to-day the center of European attention because of the trials and novelty of her post-war experience, and because of her pioneering in so many industrial and commercial matters.

In pre-war days Germany was taking about 14 per cent. of our total exports. Her share has been steadily increasing since 1922 and at present represents about 10 per cent., with prospects of attaining the 1913 ratio within two or three years. Even more important as an indicator of the significance of German recovery to our trade position is the reaction of her situation upon the buying power of her neighbors. Any serious lapse of her buying power would promptly curtail our markets throughout Europe, which comprise nearly half our total foreign

trade. Similarly, the relationships of her status to the prosperity of many nations in Latin America and the Far East scarcely require comment. Our trade prospects, therefore, in those lands are directly related to the continuance of the upward progress of the German standard of living.

It would be folly to assume that all of her problems are solved or in the last stages of solution. Great as her post-war accomplishments have been, she still has many difficulties to overcome. Outstanding among these is the problem of unemployment, which according to some authorities is likely to become a more or less permanent vexation because of profound political and social changes produced by the war. Nevertheless, remarkable progress was registered during 1927 in the reduction of the number of unemployed. Those who receive the Government subsidies declined from about 1,750,000 in December, 1926, to 567,000 on August 15, 1928—a highly commendable showing. The unrest in the steel, machinery and allied industries last spring is indicative of a widespread need for keener appreciation of the relationship of better wages to general improvement in living standards and economic stability.

The need of constructive action is evidently being appreciated at least. During 1927 occurred the first important increases in wages since the post-war depression—an advance averaging from 7 to 10 per cent., which more than compensated for the 5 per cent. increase in living costs during that year. This has brought the real wages (namely, buying

power) of skilled workmen to about 3 per cent. above the pre-war level and those of unskilled labor to 17 per cent.

There is abundant evidence of the increasing well-being of the German worker. It is substantiated, for instance, in the reports of coöperative societies showing marked increases in the demand for dried fruits, candy, tobacco and similar luxuries for the workman. The per capita purchases of such goods by members in these coöperatives have increased by approximately 30 per cent. since 1926. Per capita consumption of beer is almost double what it was in 1923, while that of tobacco has gained 20 per cent. The amusement industry in general reports uninterrupted improvement in its returns. Indeed, the leadership taken by the German film companies in the recent move toward Pan-European consolidation as against the American industry is but one evidence of the spirit and enterprise as well as the increasing inherent strength of this significant indicator of easier living.

Another sign of this general forward movement in living standards is the continued activity in home construction, especially of the cheaper type. In the larger cities (100,000 and over) such building during 1927 was approximately 80 per cent. above that of the previous year; the increase in smaller towns exceeded 135 per cent.

One angle of the unemployment situation is the fact that the number of "working people" has substantially increased in Germany, even though the country embraces a smaller area than in pre-war days. This is due in part to the material reduction

in the size of the army and navy and in part to various economic exigencies which have compelled numbers of former *rentiers* (those living entirely off income from investments) to turn to the mills or factories for a livelihood.

The rapid rise in volume of savings deposits is another interesting index of fundamental improvement in general conditions. Indeed, it describes more eloquently than anything else the betterment which has taken place throughout the nation. In January, 1926, these deposits amounted to 1,800,000,000 gold marks; in July, 1928, they exceeded 5,900,000,000.

At the outbreak of the war, Germany was the leading industrial country on the Continent, with her iron and steel and electrical activities second only to those of the United States and with a world-dominating chemical industry. The war revolutionized the world market for chemicals, particularly dyestuffs. It also necessitated radical readjustments in the German iron and steel industry on account of the territorial changes effected in the treaty of peace.

Despite these conditions, Germany's production of many basic commodities is considerably above that of pre-war days, while her output of other products is rapidly approaching the 1913 level with a considerable increase in productive efficiency. Thus, we find that while the production of coal has increased from about 140,000,000 metric tons for the present territory of Germany in 1913 to about 156,000,000 last year, the production of lignite, which is rapidly growing in industrial importance, has ad-

vanced during the same period from eighty-seven million to 150 million. Pig-iron output has jumped in that time from eleven to thirteen million tons, crude steel from 11,7 to 16,3, and rolling mill products from 9,5 to 12,9.

Nevertheless, the much heralded and feared depression during the closing months of 1928, as an adjunct to the maximum reparation burden, thus far shows little indication of actual development. The fundamental situation, notably in the general commercial and financial position of the nation, is sound and does not seem to warrant any serious pessimism. A typical illustration of the forward surge of German industry is that afforded in her position with reference to the Continental Steel Agreement. The quotas allotted to the various countries were fixed at a time of low German operations, but the insistent pressure of the German plants brought about the readjustment of the ratio for the members. The German export quota was raised from 675,000 to 825,000 tons per quarter, while the penalty for each ton of overproduction for domestic consumption was reduced from four dollars to two dollars and later to one dollar, all at the insistence of the ever-expanding German industry.

The automobile industry is likewise growing. In this connection it is well to note that the country now uses one automobile for every 137 inhabitants, as against one for every 196 in 1926—not an impressive ratio as compared with our 1–to–5, or Britain's 1–to–36, or France's 1–to–40, but nevertheless the 30 per cent. improvement of Germany in one year would be difficult to match. There has

been a marked advance in the German industry in the adaptation of American ideas of simplifying types and standardizing parts. In fact, an increasing proportion of the output is in cars for common use rather than in luxury and racing models. The tariff is being used to encourage the establishment of assembling plants in the country.

In the field of chemistry, German leadership is once more asserting itself. The German chemical trust, which now dominates 96 per cent. of the industry in the country, is the highest capitalized industrial combination outside the United States. Its net profits have risen impressively from 54,700,000 gold marks in 1924 to 103,200,000 last year. The last report of the corporation states that the average turnover has increased about 20 per cent., and in general that expected results of its reorganization have been fully realized. The pay-roll of the company comprises some 143,000 persons. Despite keen competition in world markets, the company's shipments of dyestuffs have considerably increased, particularly in the better qualities.

This vast enterprise is intensifying its efforts toward the diversification of its products. Newer items include certain further developments in insecticides, photographic equipment, rayon and specialized types of paper. It is understood that the synthetic rubber experiments of the company, mentioned by one of its high executives in November, 1927, are being prosecuted energetically. Patents have already been taken out for the production of "the raw materials for synthesis of rubber and gutta-percha" (apparently not the finished product

itself). During the war the company turned out about 2500 tons of synthetic rubber a year, or one eighth of Germany's normal consumption. It was, however, an entirely non-commercial undertaking.

In the field of synthetic gasoline, however, concrete results were achieved on a commercial basis in 1927. By September, about 1200 tons a month were being produced. The output of atmospheric nitrogen for that year was more than double that of 1926. Indeed, this development is one of the outstanding industrial achievements of the new Germany. It has profoundly affected not only her whole chemical industry and her agriculture, but—even more fundamental—it has readjusted her trade balance in drastic fashion. Whereas before the war she was importing about $45,000,000 worth of Chilean nitrate of soda a year, she is now not only free from that heavy debt but is exporting about $40,000,000 of synthetic nitrates. A widespread campaign is under way for the increase of its consumption within the republic. This has already yielded substantial results, the total purchased for domestic use having risen from 185,000 tons of nitrogen in the fertilizer year 1913–14 to 400,000 for 1926–27. The potash industry has likewise been enjoying record sales and increased profits, the accord with the French having apparently developed along highly satisfactory lines, even though the disagreement with the American Department of Justice has not yet been solved at this writing. Total sales of potash have increased some 23 per cent. since 1926.

American efficiency methods have made much

greater headway in Germany than anywhere else in Europe. There are more visiting delegations of business men from that nation to our shores than from all of the rest of the Old World put together. The arrivals recently have reached a monthly average of fifty or sixty German experts in various industrial and engineering lines.

One of the most spectacular phases of her post-war renaissance has been in connection with transportation and communication. The war reduced her gross tonnage of merchant shipping from five million to less than 400,000. With that insignificant start, steady progress was made toward an entirely new fleet which to-day exceeds 3,500,000 gross tons. It is important to note that in view of its predominantly up-to-date construction, its haulage efficiency is almost the equal of the pre-war fleet because of the economies of the newer type of Diesel motors and recent developments in fuel-saving devices, tending toward greater speed and lower cost of operation.

Railway mileage has risen since 1913 from 31,500 miles to 33,400. But even more important has been the reconstruction of rolling-stock and general equipment, which has increased the freight carried from 399 million metric tons just before the war to 489 in 1927, with practically no increase in numbers of cars or personnel and a substantial decrease in locomotives.

The most spectacular feature of the transportation situation is the development of civil aviation, in which Germany has led the world in many respects. For example, the number of passengers rose

from 8507 in 1923 to 111,000 in 1928, and the distance flown was increased from 446,000 to 6,200,000 miles. Situated as she is, Germany has become a tangled mesh of air lines serving the whole of Europe in all directions. The requirements of the peace treaty have concentrated her efforts upon the development of aircraft for commercial uses, and the result has been an amazing series of technical and administrative improvements in that field.

From the point of view of the rest of the world, the major consideration with regard to Germany's recovery is, of course, her activities in the field of commerce. Her "unfavorable" trade balance, which reached in 1927 the formidable figure of nearly $935,000,000 of excess of imports over exports, is quite naturally of profound concern, not only to Germany but to those nations interested in the adjustments of the reparations. The balance for the first seven months of this year, however, is somewhat more encouraging, since the excess of imports totaled a little under $500,000,000, as compared with approximately $580,000,000 for the same period in 1927. The upward climb of imports is primarily due to the need for raw materials required by the high activity in practically every line of industry. With such a ferment of reconstructive vigor it is inevitable that the world should be drawn upon for raw materials of all sorts. However, one unfavorable aspect of these high import figures from the German point of view is the increase in meat and dairy items—commodities which could in most cases be largely produced at home. Meat and poultry imports have risen from 150 million pounds in 1913

to 458 million in 1927, and butter from 119 to 239 million pounds during the same time. A major problem before the German leaders is clearly the rehabilitation of agriculture to curtail, in part at least, this abnormal burden.

The export developments have shown satisfactory improvement with an increase of 4½ per cent. since 1926. On the basis of 1913 prices, exports for 1927 were about 75 per cent. of the pre-war figure. In 1927 slight declines were registered by certain lines of exports such as foodstuffs and other raw materials, partly because the coal shipments in 1926 during the British strike had been abnormally large. In the major lines of fabricated wares, however—iron and steel, machinery and chemicals—Germany is moving forward rapidly.

German commercial recovery presages some competitive pressure which we are likely to observe in certain favorite markets of Latin America and the Near East. In some of the Caribbean countries, for example, Germany has already reached her pre-war level and is on even terms with England, notably in Mexico and Cuba. In the larger Latin-American markets she is still behind her pre-war share, but in Australia and in India her share has already improved.

With reference to her trade relations with the United States, it is significant that we continue to rank first as a source of Germany's imports, furnishing 15 per cent. of the total, which is almost exactly the same as in 1913 and nearly as much as the next three countries (Argentina, the United Kingdom and the Netherlands) together. The bulk of

our shipments are, of course, in raw materials—cotton, copper, wheat, mineral oils, fats, etc. But there is a significant increase in manufactured lines, notably automobiles, machinery, and even many specialties such as adding machines, for which Germany is our leading European market. Incidentally, it is interesting to note that the greatest relative gain by any one country as a source of Germany's imports was registered by Belgium, which moved from thirteenth place in 1926 to ninth place in 1927.

So far as Germany's export markets are concerned, we hear much about her rivalry with us in Latin America. As a matter of fact, by far the greater portion of her export interest lies in her immediate vicinity. Only 7 per cent. of her exports go to Latin America, which is almost the same proportion as in pre-war days. It is therefore significant, from the point of view of German recovery, to note that the greatest gains in her export trade were in shipments to Europe, notably Russia.

By far the most valuable single group of commodities in Germany's exports were iron and steel products (exclusive of machinery), whose value exceeded 342 million dollars last year. This item was followed by chemicals with 282 millions, coal and coke with 211 millions, and machinery (except electrical) with 207 millions, electrical equipment being about 95 millions. This list approximates that of the last pre-war year, so far as relative importance of the various commodities is concerned.

Germany's general commercial outlook still has many formidable obstacles. There is the major one of the trade barriers which she is encountering in all

directions on the Continent, and in the modification of which, as the result of the recent International Economic Conference, she has taken a leading part. The retarded recovery of Russia is likewise a most important deterrent of her trade advance. Her exports to that market in 1913 approximated $210,000,000, whereas in 1926 they were less than $63,000,000, and, if allowance be made for price changes, this would indicate an actual volume decline in that trade of not less than 78 per cent. Then, too, there has been a marked advance in the industrialization of many once backward countries, which in pre-war years provided an attractive outlet for her specialties in cheaper grades of textiles, hardware, novelties and dyes. The new industrial life that has awakened in the Far East and Latin America as the result of their wartime isolation and their new national consciousness has presented a problem of major importance to Germany's exporters.

These and other factors have forced the Government to adopt extreme measures of assistance, notably through export credit-insurance schemes, in which many thousands of policies were written last year. Headway is gradually being made in the solution of all of these problems. The Import and Export Trade Restriction Convention for the modification of trade barriers has now been signed by twenty-seven nations, and Germany is one of the chief beneficiaries of this move. She has, in the course of the past twelve months, negotiated most-favored-nation treaties with seven or eight of her leading customers. The treaty with France which became effective in September, 1927, has been a

notable contribution toward the clearing up of her commercial relations. Indeed, it has inaugurated a series of accords between the two countries, including a banking understanding, resulting in the opening of German branch banks in France. As the result of this, there are persistent reports that France may make material inroads on America's position as a source of capital for Germany. The dye and potash arrangements between France and Germany are working smoothly, with production and sales control in close collaboration.

With all of these developments, it is not difficult to understand the confidence of informed observers that the inauguration of the full or standard annuity under the reparations will involve no immediate serious difficulty, at least so far as experts are able to perceive.

Broadly speaking, the financial position of the country as influenced by all of these circumstances is thoroughly satisfactory. Recent reports record a remarkable achievement in Germany's fortifying her gold standard through the accumulations of gold in its central bank. The Reichsbank now holds nearly two and a half times as much gold as before the war and four times as much as it held when Germany went on the gold standard about five years ago. The present reserve is approximately $535,000,000, as compared with about $217,000,000 at the end of 1913.

Germany's total borrowings from foreign countries have been estimated during the past four years by the Diskonto Bank at an amount between 8,600,000,000 and 9,300,000,000 gold marks, whereas

the payment of reparations during that period has been about 4,700,000,000 marks. Thus the receipts from abroad in loans have been almost double the payments of reparations. Dr. Schacht, president of the Reichsbank, and the reparation authorities have endeavored to modify these borrowings, and indeed the inward flow of capital seems to have been somewhat slowed down, so that the total loans for 1927 slightly exceeded 1,500,000,000 marks, as against 1,700,000,000 for 1926.

Although the United States has supplied nearly 70 per cent. of the total long-term loans floated since 1924, its proportion has been steadily falling off year by year, so that for 1927 it was approximately 64 per cent., as against 74 in 1925. Germany seems to be turning more and more for her foreign capital to her European neighbors; and then, too, the gradual rehabilitation of domestic finance is also affording an increasing source of funds.

In general, then, and even with material allowance for many unsolved outstanding economic and social problems, there is no doubt as to the astonishing record of rehabilitation in Germany since 1924. She is laying a broad foundation upon which a substantial structure is already rising.

CHAPTER XIV

THE COME-BACK OF BRITAIN

ACCORDING to present indications the conspicuous feature of international trade during 1929 will be the revival of England and the general economic resurgence of the British Empire.

Throughout the post-war period more than one Continental and American competitor has proceeded to announce that "England is through"—as an obituary to a once troublesome rival. Admittedly, the potentiality of British trade has been far below par during these last few years; with her extreme dependence upon international trade she would naturally be the hardest hit by such an international cataclysm as that which devastated the world in 1914–18. But exultation over such a development (on the part at least of the American business world) is the very last emotion that this crisis should arouse.

The shattering of England's buying power, and with it the serious impairment of the economic strength of the British Empire, would mean the loss or serious curtailment of the buying power of our best customer. The empire is by all odds our leading customer and competitor. Its eight major units took about two billion dollars' worth of our exports in the fiscal year 1927–28, which represented

more than 40 per cent. of our total sales abroad. Obviously any factor which jeopardizes that formidable trade will be felt in every corner of the United States. It is made up of contributions from the cereal farms in the Middle West, the cotton and tobacco plantations of the South, the fruit orchards of the Pacific coast, the lumber mills of the Northwest and the Gulf States, and rapidly increasing shipments from the automobile factories of Detroit and thousands of small plants through the industrial districts of New England and the Middle Atlantic. On the other side of the ledger, our imports from the empire totaled about one and a third billions, or 32 per cent. of our purchases from foreign countries.

No further data would be required to demonstrate the imperative necessity of a scrupulously careful check by informed American merchants, manufacturers, bankers and shippers on the trend of economic affairs in the British Empire. When, for example, the coal strike of 1926 gravely crippled the recovery of British industries, or when prolonged hardships of her shipping were brought on by postwar developments, such as the new tonnage constructed by Germany, Italy and other competitors, or when the construction of textile mills in China, Japan and India played havoc with her cotton exports—whenever such major casualties have retarded her economic rehabilitation they have had a direct repercussion upon our own prosperity.

Here is an illustration: Our sales to the United Kingdom in 1927–28 fell to 809 million dollars, as compared with 844 in the fiscal year 1921–22—a re-

action from the severe trials encountered by British business (and therefore British buying power) during that trying period. To take a more specific example, raw cotton is by all odds the largest single item in our sales to the island kingdom, nearly exceeding the combined value of the next two items, tobacco and gasoline. Our sales of that staple to the United Kingdom in 1927 were valued at 140 million dollars, as compared with 230 millions in 1913.

Our interests in the empire are financial as well as commercial. The total American investments under the British flag in all parts of the world have risen to $3,800,000,000 from about 775 millions in 1913. Canada accounts for 83 per cent. of to-day's large total, but there is a notable increase in the amounts being poured into other units of the empire, especially Australia.

Even more significant is our rapidly increasing dependence upon the empire as a source of essential raw materials for our growing industries. In pre-war days a large proportion of our purchases of such raw materials, notably rubber, wool, skins, tea and tin, were made in or through London. To-day, however, because of the complete dislocation of trade routes during the war, most of our requirements for these essentials are filled by the producers without the intercession of the London distributers. For example, 33 per cent. of the value of our total imports of wool came to us in 1913 from England, as against 23 per cent. in 1927. In the case of rubber, the decline was from 41 per cent. to 8 per

cent; tin from 52 to 19; and hides and skins from 8 to 3 per cent.

This shift has seriously affected an important phase of Britain's commercial strength—namely, her service as an intermediary or distributer. But, although this has crippled one limb of England's commercial organization, it has at the same time strengthened the position of her many interests, financial as well as commercial, in the exploitation of the sources of these raw materials in all parts of the world. This applies not simply to the rubber and tea plantations or tin mines of her own possessions; it refers to her very heavy holdings in lands which are politically independent but economically very intimately linked with London. For example, the more than one billion dollars of British capital invested in Argentine railways collects a regular dividend from the heavy shipments of Argentine wool across the pampas and thence to the United States.

Much has been said of late regarding the amazing increase of American investments abroad, and the statement is frequently circulated that the United States is to-day the world's dominant force in the field in investment capital. But the total of our private holdings abroad is now thirteen or fourteen billions, whereas those of England are in excess of twenty billions. The latter, however, are increasing at the rate of about 560 million dollars a year, as compared with our annual accretions averaging 1131 millions during the past four years.

The question of trade rivalry between the United States and the United Kingdom has come up on

many occasions, especially in recent years with the discussion of such contentious matters as tariff adjustments and debt settlements. It has been alleged that the onward drive of our exports has impaired the prospect for British commercial recovery in many once lucrative markets. For example, the amazing advance of the United States in Australia, where we are to-day supplying 22 per cent. of the total imports, as compared with 11 per cent. in 1913, has brought despair to many British observers. Upon closer analysis, however, it is revealed that our exports to that important market consist of commodities which in the main are not seriously competitive with those from the United Kingdom. The sales of our leading export to the southern commonwealth —namely, automobiles—totaled forty-one million dollars last year; it was indeed our largest single market for that important commodity. In this field, however, the British have not been active, for the simple reason that the tax laws on motors in England encourage the construction of very small, light and low-powered cars, for which Australia presents a very unattractive market. Her needs are for much more rugged, powerful vehicles which American factories can supply, because they have long been satisfying precisely such a demand from our own western and southwestern territories, where geographic conditions are strikingly like those of Australia.

Similarly the latter's need for mining machinery, agricultural implements, lumbering and irrigation supplies, and road-building apparatus, all fits in aptly with our own domestic trade requirements and does not find in British industry a ready source of supply.

In other words, our trade advances in the dominions, speaking generally, have by no means been made at the expense of the mother country, but have been evolved out of the expanding buying power of the colonies and their new requirements, for which American specialties are peculiarly fitted.

This has emphatically not involved the destruction of England's trade prospects within the empire. Her trade has gone forward and has capitalized in its own special manner the new opportunities created by the advancing buying power in the new dominions and commonwealths. For example, her exports to Canada rose in millions of dollars from 115 to 142 during 1923–27; in Australia from 167 to 297; in New Zealand from 52 to 95; and in the Union of South Africa from 28 to 40 during the same time. To-day Australia and New Zealand afford an outlet for no less than 13.36 per cent. of England's total export trade, as compared with about 8.7 per cent. in 1913.

We hear much of British-American rivalry in Latin America, but except for the River Plate region there does not seem to be ground for serious fear on the part of American exporters as to the possibility of heavy losses to their British rivals. After all, Britain's major commercial interest has always been on the Continent of Europe, supplemented more recently by the possibilities of empire markets. It is in her trade with her European neighbors that she has lost most heavily as the result of the wartime disruptions. For instance, in pre-war years her direct export to Russia approximated ninety million dollars, whereas in 1927 her sale

there was less than twenty-two million; and if allowance be made for price changes in that time, it is evident that this trade has dwindled to a mere fraction of its pre-war volume. Similarly, the exploitation of hydroelectric power in Italy has greatly curtailed the possibilities of British coal exports there, and as a result England's percentage of the Italian import trade is only about half the pre-war figure. In 1927, for the first time, the value of her exports to Germany ($203,000,000) passed their value in 1913 ($198,000,000), but this still represented a great curtailment of volume. For these reasons Britain has been in the forefront in the endeavor to relieve the post-war reconstruction difficulties of the Continent. She has concentrated her effort particularly upon the obliteration of the trade barriers which sprang up on all of the old boundary lines and, more especially, along the 5000 miles of new frontiers created by the treaties of peace.

Admittedly there are many lines of staple manufactures in which there is likely to be sharp rivalry between British and American dealers, but even within certain broad groups of items of the same type there is still a wide range of differing qualities which permit of an expansion of the trade of each without serious impairment of the other. For example, our exports of cotton cloth to Chile have risen from 22,600,000 yards to 24,400,000 since 1924. This might ordinarily seem to be a serious invasion of an old-established British market, but upon investigation it is revealed that England's exports of cottons to that country have also increased, from 27,900,000 to 39,200,000 in the same period

of time. It would appear that the specialization of the trade of each in certain particular qualities and grades has enabled the trade of both to grow without serious friction.

In some parts of the empire the newer industrial growth has been momentarily impeded by labor difficulties, notably in Australia and India. These interruptions have, on various occasions in the last two or three years, impaired the prospects of a rapid industrialization, and any appraisals of the outlook for this movement in these territories must be carefully gaged with this grave problem in mind. There has also been an occasional dearth of capital for various undertakings, due partly to the more or less radical legislation characteristic of some provinces; but, broadly speaking, the authorities throughout the empire are sparing no pains to attract industry, whether through favorable tariff arrangements, taxation preferment or other type of legislative allurements.

So far as the general drift of her trade is concerned, the latest figures on the exports of the United Kingdom would seem to afford at least a reasonable encouragement. For the first nine months of the years 1926 and 1928, Britain's exports have advanced from 496 million pounds to 535 million pounds—an 8 per cent. increase in value, which, in view of the fact that prices declined slightly in that period, was indicative of an even larger advance in volume. Nevertheless, despite this increase in the British volume, the more rapid growth of the trade of the world as a whole has resulted in a decline in Britain's proportion of the world's total. In fact,

it has fallen from 15.4 per cent. of the world's exports during 1911–13 to 12.8 per cent. in 1927.

This is the problem which is now giving far-sighted leaders of England their gravest concern, since the continued strength of Britain in the field of manufactured exports is of prime importance to her salvation. Her foreign trade represents 80 per cent. of her total commercial life, and it is, except for coal, made up almost entirely of manufactures. In this field she still dominates the world, since she supplies nearly 38.5 per cent. of the total manufactures contributed by the four leading commercial nations in the world's commerce, whereas her share in 1913 was 37.8. This modest increase, however, did not match the relative improvement of the United States, whose portion rose in that time from 15 to more than 23 per cent.

Many outstanding British leaders, such as Lord Melchett, are advocating a protective system around the empire which would make it "a self-sufficient body." This, however, would involve a degree of readjustment that would seem to make it difficult of accomplishment. Even within the empire there are already grave difficulties in the way of any such procedure. For instance, Canada and Australia are having their troubles regarding the system of bounties—the so-called Patterson plan—paid by the latter upon exports of dairy products. Canada, like the rest of the world, has stringent anti-dumping laws. Other obstacles of the same sort may be encountered in promoting trade within the empire, especially since various units of the "family" are

in sharp competition in this manner in certain staple lines.

The imperial preference tariff schedules naturally will involve many commodities of interest to American exporters—for example, tires and other automobile accessories, tobacco, cereals, fresh fruits and various lines of prepared foodstuffs. The spearhead in this general offensive is the British Empire Marketing Board, which is rapidly getting under way after its inauguration some two years ago. Its purpose is not simply the general development of intra-imperial trade by increasing the demand in the United Kingdom for empire produce, but also the stimulation of agricultural production throughout the British Empire through scientific research, economic investigation and imperial publicity and education. This work is to be forwarded by liberal subsidies and indirect aids not only from London but also from the various colonies and dominions.

One feature of the work of this organization which is deserving of special attention from the American point of view is its campaign in behalf of imperial cotton and tobacco. As yet little headway has been made that is evident in trade figures, but the years of work that have already been put in, especially in connection with "imperial cotton" in the Sudan and India, are now being brought to a climax under some unified leadership.

Fundamentally, however, the work of this board is of chief concern to the United States because of the possibilities of its reaction upon the buying capacity and general economic growth of the colonies.

Our exports are bound to be stimulated as this movement succeeds, even though we may feel unfavorable repercussions from its competitive effort in a few lines.

One area in which the imperial preference idea is of peculiar importance to the United States is in the British West Indies. Though the volume of their trade is not large, it is a rather strategic item because of the use of these islands as a base for operations in the adjoining Latin-American countries on the mainland. For years, therefore, there has been rather keen rivalry between American and Canadian or British exporters of flour, textiles, hardware and plantation supplies. The Canadians have effectually crowded out American flour in Trinidad, but the situation in Jamaica and the Bahamas is more delicate because of the much closer relationship of those islands with the United States. With so large a proportion of their fruits, sponges and other products sold in this country, it has been found inexpedient by the islanders to introduce any rigorous enforcement of the imperial preference idea. Nevertheless, the matter is being actively discussed and deserves the careful observation of interested American traders.

The Canadian-West Indian trade agreement recently concluded is intended to draw the dominion and the islands closer together by supplying a dominion market for tropical fruits. The Empire Marketing Board is being solicited for aid in this movement, and numerous trade commissioners have been active in behalf of British and Canadian exporters in that area. One significant indication of the im-

portance attached to this Caribbean trade is the fact that there are no less than 181 British and Canadian branch banks on the islands and in the adjoining mainland countries, as compared with forty American establishments.

Thus far the proportionate distribution of the trade of the various units of the empire with one another as compared with their commerce on the "outside" does not show any great change since prewar days. Approximately 40 per cent. of the total imports of the members of the empire come from within the group, and they find markets for 44 per cent. of their respective exports under their common flag. These figures are almost exactly the same as in the years just before the war.

The more recent trend of commercial relations between the United Kingdom and the rest of the empire, however, would seem to indicate a slight weakening of the empire tie. During the first half of the years 1926, 1927, 1928 the percentages of the total imports of the United Kingdom that came from empire sources were 33.5 per cent., 30 per cent. and 31.4 per cent. respectively. And the comparable figures on the exports of the mother country going to markets in the empire were 46.7 per cent., 45.9 per cent. and 44.3 per cent. of her total sales overseas. In the case of these exports the amounts sold by the motherland to the dominions and colonies has remained almost exactly constant for each of the three half-years—namely, about £157,500,000—whereas her trade with the rest of the world has been gradually advancing. The import total from the colonies to the United Kingdom has declined during the half-

years of the period mentioned from 201,9 to 190 million pounds sterling.

One interesting aspect of this increasingly intensified drive for empire trade is the service of the Prince of Wales as a symbol or, more properly, good-will ambassador of the idea. His travels are responsible to no little extent for stimulating this "empire-consciousness" among British business men and financial and shipping leaders. For example, his venture with his brother, the Duke of Gloucester, into South Africa has already roused a great deal of public interest in the business prospects of the vast empire extending south from Abyssinia to the Cape. This is a practically unexploited area a third the size of the United States, with immense tracts quite suitable for white populations and with large prospects for coffee, sisal, tobacco and other vegetable products as a counterbalance to the already appreciated vast mineral wealth of the region. The publicity now current in the British press on the subject stresses the importance of Britain's dependence upon her own lands for such important items in her trade for which she now is indebted to foreign nations.

An important phase of the post-war rehabilitation of Britain has been the introduction of the protective tariff under the name of the "Safeguarding of Industries Act," which was passed in August, 1921. It expired in August, 1926, but was renewed for ten years. Originally, as the name indicates, it was intended to provide protection for certain industries closely allied with national defense, including various important chemicals, metals, certain electric equipment, laboratory supplies and optical glass.

These were given protective tariff rates of about 33⅓ per cent. *ad valorem*. The number of commodities has been gradually increased to include certain fabrics, cutlery, gloves, paper, buttons, pottery, etc. The rate as a rule has been about one third *ad valorem,* though in certain cases it is a quarter and in others a half. Preferential rates have been extended to goods originating in the empire.

In the final analysis, the major accomplishment in further rehabilitation of the empire as a whole is likely to come only as the motherland mends her sadly shattered economic strength. By all odds her paramount problem is that of labor, and although she has materially reduced the number of unemployed receiving doles from an average of about 1,800,000 during the latter half of 1921 to about 1,300,000 at present, there is still much to be done along this line. It must be borne in mind that these figures include a number of chronically unemployed such as are apt to be found about the fringes of every large industrial community. It is well to remember also that Great Britain has to-day actually at work 1,250,000 more artisans in her factories than before the war, although many of these are doubtless women and girls whose employment in this manner dates from the war period. Strenuous efforts are being made to transport some 200,000 surplus workers, largely coal miners, across the seas to the various dominions. There is difficulty, however, in placing such masses of industrial labor in the colonies where the chief need is for agricultural hands. For the latter the dominions are eager to advance transportation costs and even loans for

financing farm operations, live stock and equipment.

The hardships of British labor are peculiarly acute because of the pressure of Continental competition. According to data published by the International Labor Office in Geneva as of April 1, 1928, British workers in the engineering trades were being paid about double the wages of similar labor in such competing industrial sections as Milan, Brussels and Vienna, and treble the rates earned by competitors in Warsaw. Once again the surplusage of labor in the island kingdom makes it extremely difficult, if not impossible, for the British employer to secure a compensating return on the high wage which he must pay through the introduction of labor-saving devices, as is the practice in American industry.

The most encouraging indicator for the future is the general approval of the principle of coöperation in industry as advocated by Lord Melchett.

The labor outlook is further brightened by the improving activity of shipping owing to good world crops and the stronger position occupied by the British iron and steel industry as the result of greater price stability on the Continent.

Coal is a vital factor in the whole British economic system, not simply because of the value of its output and the number of workers employed, but because it is the basis of the whole block of heavy industries. Furthermore, it pays the freight for most of the higher-valued fabricated exports of the kingdom. Consequently, the prolonged strike in 1926 and the subsequent painful readjustment must be regarded not simply as a coal problem, but as one affecting the whole industrial and commercial fabric

of the nation. The prolonged paralysis of the British industry during that depression was a serious blow to her export position for the reasons indicated; not only that, but the encouragement given to competing fuels—petroleum, hydroelectric power, and the coal fields of Poland and other Continental areas—is likely to be felt by the British trade for a long time to come.

The labor phase of the situation is, of course, of prime importance. It is increasingly evident that there is a standing surplus of some 200,000 persons in the coal industry which may not again expect to find employment there. This is brought out by checking the production in successive weeks over the past two years. For example, there are now employed in the industry about 890,000 persons, whose output in recent weeks has been ranging around 5,000,000 tons. Two years ago there were well over a million workers producing about the same quantities per week.

The world-wide extension of the use of oil and electricity has had much to do with this. With the petroleum output of the world rising from 385 million barrels in 1913 to 1252 million in 1927, and with an advance in the world's developed hydroelectric horse-power from twenty-three million in 1920 to thirty-three million in 1926, it is clearly evident that the British coal industry is faced with a formidable problem. Incidentally, the low per capita use of electric power in the United Kingdom is significant in this connection; in 1925, the last year for which comparable figures are available, the kingdom showed 188 kilowatt-hours per capita of population,

whereas the figure for Germany was 192, France 247, Italy 195, Belgium 431, Sweden 593 and the United States 629. Greater use of electricity in the United Kingdom, however, seems to be assured by the scheme for central power distribution now being carried out.

Some headway is being made through mergers and other organization devices to ameliorate the situation. The outstanding commercial legislation passed by the session of Parliament which adjourned on August 3, 1928, provided some urgently needed relief in local taxation. This is likely to aid the industry along with other branches of production and manufacturing. By doing away with three fourths of the burden of these excessive local taxes on industrial production and by effecting lower transportation rates through readjustment of taxes, it is hoped that the coal industry may be particularly assisted, since it is the one primarily concerned in these difficulties.

Obviously there are many vital improvements still to be achieved before England can be regarded as squarely on her feet. She has been hard hit through world-wide transformations in the use of fuel (substitution of hydroelectric power and petroleum for coal); her textile industry has been shattered by the changes in styles and the development of native industries in once lucrative markets; her ship-building until recently was suffering sadly from the inroads of new merchant fleets equipped with highly economical Diesel motors and oil burners. But in all of these definite improvement has been made.

Indubitably the empire is gaining strength, and

1929 will probably set a memorable mark in that progression. From the point of view of American business, be it remembered that this is a strength which will manifest itself even more in the stimulation of the buying power of a market that takes more than two fifths of the $5,000,000 worth of farm and factory products that we sell abroad every year, a buying power which, as it gains in momentum, will manifest itself most helpfully, not only in direct relations with us, but in invigorating our trade in thousands of markets in other parts of the world from which the empire in turn will be making new purchases.

Britain will still have many problems—labor surplus; imperial harmony, economic as well as political; continued heavy taxation burdens; Continental trade barriers; stagnation in her Russian and Chinese trades; world-wide distress in some of her leading staples. These are but a few of her many cares; but, after all, it is well to remember that Britain's commercial strength has been fed on just such rugged food for generations and centuries.

CHAPTER XV

ECONOMIC FRANCE OVERSEAS

An obscure seven-line press despatch was tucked away in the inner pages of a few metropolitan dailies one day in March, 1928. It carried the laconic news that "the first postal airplane from Buenos Aires to Paris in the newly started ship-and-plane service arrived at Le Bourget yesterday. It carried mail shipped from Buenos Aires on March second, thus taking twelve days for a trip ordinarily lasting three weeks."

Thereby hangs a tale, not perhaps of fantastic air achievement and extraordinary heroism, but of carefully planned and widely ambitious commercial and economic strategy fraught with unusual interest to international business. The epochal air voyage of Costes and Lebrix across the South Atlantic and around Latin America may at first glance have seemed but another of the many recent brilliant accomplishments of the French in the field of sport and adventure. The episode had, however, a far deeper and most lasting significance. It was the latest and one of the more spectacular of a series of episodes indicating clearly the newly invigorated activities of the French in the field of Latin-American economic affairs—a harbinger of what is to be expected in other markets throughout the world.

This episode of the culmination of the Paris-Buenos Aires link at once raises a series of questions. Just what is the extent of French interest in Latin America? Has she fallen heir to any substantial part of Germany's shattered trade in that section? If so, has she been able to enlarge that heritage? How seriously are we to regard the commercial aspects of the Pan-Latin movement which has been carried on so vigorously under French leadership in recent years and has stimulated such episodes as the conference of the Latin Press Union in Havana in early March? With her African possessions playing a prominent part in this new Paris-Buenos Aires traffic, how significant has been her recent trade development in her colonial possessions? In general, how large a factor is this new economic empire of France, not simply in Africa and Madagascar, but throughout its far-flung units from Indo-China in the East to Guiana and the Caribbean on the West? Just what significance does this widespread belt of tropical and sub-tropical markets and raw-material producers have in the renaissance of the new France which is rising from the ashes of 1914–18?

Before proceeding with an analysis of these problems of colonial commercial development it may be well to review one or two outstanding features of the trade relations between the United States and the French Republic. These have been the subject of some discussion recently, and many of their phases have been rather liberally distorted by enthusiasts on either side of such highly controversial topics as the war debts, tariff relations, etc. Obviously it would

be impossible to review such complicated issues in this connection. It may not be inappropriate, however, to point out one or two outstanding factors in the Franco-American economic relationship.

In the first place, it has been alleged that the trade between the two nations is, unfortunately, overbalanced by the recent expansion of our exports to France. Indeed, these have grown at a very rapid rate, rising from a pre-war average (1910–14) of more than $138,800,000 to $228,700,000 last year. This increase of nearly 66 per cent., though made up in part by increasing prices, still represents a moderate increase in volume. On the other hand, our importations from France had a much more moderate growth, from $130,000,000 to $167,800,000 during the same time, which, after allowances are made for price changes, represents an actual decrease in volume. It has been the custom in some quarters to ascribe this decrease to the drastic effects of American domestic competition with French commodities, aided in part by the American tariff. This undoubtedly played some part in the matter, but closer analysis of the situation also reveals that the decline in our French importations was also due in part to the falling off in the volume (not value) of her total trade.

The important fact is that we are to-day taking a larger percentage of French exports than before the war—6.6 per cent., according to the latest figures, as compared with 6.1 per cent in 1913. In other words, the determining factor in increasing our importations of those luxury and semi-luxury wares which form the principal French exports to

the United States is the level of prosperity and of improved buying power in this country. If these elements are assured, the fine French wares will be bought by American consumers regardless of the additional cost involved through customs duties.

Nor is it at all accurate to describe the economic relationship between the two countries as entirely unbalanced and in favor of the United States. On the basis of the interchange of *merchandise* this is the case, but the largest single item in Franco-American economic relationship is left out of the customs figures. It is one of those elusive but significant "invisible" items whose importance in international transactions has vastly increased since the war. This particular item is the expenditures of American tourists in France, which totaled not less than $225,000,000 in 1928. A small fraction of this covered purchases of goods which later appeared (mostly) on our import statistics, but the bulk of the tourists' expenditures is in hotel bills, restaurant checks, taxi and sight-seeing fees, etc. In other words, we bought under that one heading alone—and there are other invisible items in favor of France on the balance-sheet—more in the shape of French services than in our entire purchases of French merchandise.

There was considerable controversy during the autumn of 1927 with reference to the Franco-American tariff status, the details of which cannot be reviewed here. Without venturing to pass judgment upon the merits of either side, it may be helpful, perhaps, to mention a few of the points brought out at that time. Owing to the fact that there is, as

yet, no permanent commercial treaty between the two nations, the relationships are somewhat confused and subject to controversy and partizan misrepresentation. Merchants in each country have protested against the administration of the customs laws of the other. The French have been bitter in their denunciation of our official investigations of production costs and of the export declarations of French merchants, though the number of specific complaints actually made by French firms have been very few indeed.

On the side of American traders there have been charges as to alleged administrative discriminations with regard to the French regulations and import restrictions on canned goods, dried fruits, motion pictures and meat products. American automotive exporters alleged the misapplication of the French customs assessment of *ad valorem* duties. They also declare that American trade with the colonies suffers hardship through the requirement of the French law that all goods be sent through a French port or directly to the colonies, whereas in several cases, it has been pointed out, the colonial markets can be much more effectively covered through a third country or colony.

The controversy brought out the fact that France through the application of its policy of the *tarif de combat* applied sharply discriminatory rates against American trade as compared with the traffic of other countries in the same products. In some cases the duties levied on the American commodities were four times those assessed on the same wares coming from Germany, England, Belgium and other favored

nations. In some lines, such as canned salmon and paraffin wax, there are no records of shipment from the United States to France, which seems to indicate the efficacy of the French restriction.

Fortunately, the matter was in part adjusted, though there are still several discriminations persisting, their adjustment having been left for the eventual negotiation of a permanent treaty.

Another item of discord has been the question of the operations of the Alsatian potash company in the United States. This concern belongs to the French Government and is associated with the German producers in an international cartel whose selling operations in the United States have fallen under the ban of the Department of Justice as a violation of the provision in the Wilson Tariff Act with regard to the price-fixing operations of such monopolies. The French Government, however, claimed extraterritorial privileges for the Alsatian concern, but this was repudiated in a letter of the secretary of state dated July 7, 1927, to the attorney-general. The potash organization in question was therein denied "any diplomatic or consular status in this country. . . . Agencies of foreign governments engaged in ordinary commercial transactions in the United States enjoy no privileges or immunities not pertaining to other foreign corporations, agencies, and individuals doing business here, and should conform to the laws of this country covering such transactions." This observation is in keeping with the tenor of the recommendations of the Geneva Economic Conference of May, 1927, in which the French representatives concurred.

Further repercussions of these problems are likely to occur as the trade relations between the United States and the new economic empire of France take on increasing activity. But the obvious mutuality of advantage in the development of this trade to its maximum possibility is so evident and is so firmly fixed as the purpose of the leaders of each of the respective governments and commercial communities that the misunderstandings involved are certain to be adjusted and the substantial progress already made to be carried to new high levels.

Reverting to our consideration of the special commercial problems of the French colonial empire, we find that this empire comprises 4,600,000 square miles (exclusive of mandated Syria), which is more than half again as large as our forty-eight States. True, the French possessions lie almost entirely in the tropics and much of this vast mileage is nothing but sandy wastes and as yet impenetrable jungles. But in these days of miracles of tropical medicine, dry farming, irrigation, and immeasurably improved metallurgical and mining practices, one would be short-sighted indeed to write off these hitherto unexploited areas as unproductive wastes simply because their potentialities are as yet unknown.

That vast western lobe of Africa protruding into the Atlantic, plus a broad wedge far into the heart of the Dark Continent, is almost entirely under the tricolor, and though the bulk of it is bare and nearly nameless on the map as yet, the astonishing mineral developments that have been made in post-war years around its northern and southern fringes are of

such evident potentiality that better judgment impels us to restrain the temptation to dismiss the economic significance of the region as "problematical."

The census figures of 1926, as interpreted by Vice-Consul Cameron at Paris, show a total population of nearly 60,000,000 in the French colonial empire. These figures are, of course, only very roughly approximate, because of the obvious difficulties of enumeration in widely scattered native settlements and in the Mohammedan colonies, where numerous peculiar problems were encountered by census tabulators. By far the largest unit is Indo-China, with a population of about 21,000,000. West Africa is given about 13,600,000, Algiers about 6,000,000, Morocco something over 4,000,000, Madagascar about 3,600,000, with equatorial Africa nearly the same, and Syria, Tunisia and Cameroon each about 2,000,000.

The last remaining bits of the once vast French empire in America—namely, French Guiana (now chiefly conspicuous as a penal colony), Guadaloupe, Martinique (famous as the birthplace of the Empress Josephine) and two tiny rocky islets of St. Pierre and Miquelon, lying off the coast of Nova Scotia—have a total of only about half a million.

The first question is, How important are these widespread outposts in the picture of the trade of the mother country? Has France been able to maintain that very substantial predominance, which is characteristic of the trade of Britain with most of her colonies and dependencies? This has not been the case in the farther colonies—namely, those in Asia, central and western Africa, Madagascar

and America, where the French share is approximately 37 per cent. in the total import trade. In North Africa, Morocco, Tunis and Algeria, however, her share is much larger, approximating 72 per cent. of the total importations. This indicates the intensity with which the French have been cultivating their opportunities in those near-by areas. One notes, furthermore, a growing feeling that French export opportunities there are still undeveloped, and a more intensive drive is under way.

Viewed from another angle, the importance of the colonial trade in the total commerce of France, the problem takes on some interesting aspects. In 1927 about 14.7 per cent. of the total French exports went to the colonies, the value being about $318,400,000. The 1913 percentage was less than 13. The colonies supplied 11.5 per cent. of the total imports of France, their contribution having exceeded $235,700,000 in value last year. These figures aroused much comment in France because they revealed the importance of the colonial traffic in returning a favorable balance for the total trade of France; almost 90 per cent. of the excess margin of French exports over imports was the result of increased sales to the colonies. Because of the keen interest of the French Government and the financial and commercial leaders generally in the development of a favorable balance (primarily because of its repercussions upon exchange rates and general fiscal policy), the importance of this new aspect of colonial economic possibilities can be readily appreciated.

Of the total exports from France to the colonial

empire in 1927, almost exactly half (or about $154,000,000) went to Algeria, with French Indo-China coming second with about $43,000,000, and Morocco third with less than $40,000,000, followed by Tunisia ($38,000,000) and West Africa ($30,000,000). As was to be expected, the more spectacular increases in recent years have come in the case of West Africa and Morocco, where intensive exploitation programs have been concentrated since the war. Incidentally, this has been expedited with the use of German reparation material, particularly railway supplies and equipment.

On the import side as well, Algeria supplied nearly half of the raw materials coming to France from the colonies last year. The total contributions of the possessions are assuming a steadily increasing proportion of the whole of French purchases; in 1913 they supplied her with 9.4 per cent. of her entire imports, whereas last year their share, as indicated above, was about 11.5 per cent.

Much of the outward-bound traffic from the mother country to the colonies is in the shape of supplies for a series of substantial public works, notably roads and port facilities, some of which are of truly formidable proportions. Conspicuous among these is the Brazzaville Ocean Railroad in West Africa, which promises to be one of the major undertakings of this type on the whole continent in point of economic significance, involving the construction of a line approximately 360 miles in extent, which is to provide access to the sea for the vast resources of the lower Congo, including both the French and Belgian colonies on either side of that great artery

of traffic into the Dark Continent. The budget for these projects in 1927 totaled more than $40,000,000, which is to be slightly exceeded in 1928.

Turning to the significance of the French colonial trade to the United States, we see immediately that these markets have taken on a rapidly increasing importance in our general expanding export activity. In 1913 these colonies took only about $4,000,000 of our total exports, whereas in 1927 their purchases were valued just below $20,000,000. There are very few parts of the world where our trade experienced such a fivefold increase during these intervening years. Algeria and Tunisia have nearly trebled their purchases from us and form to-day the largest of our markets in the French colonial empire, with total purchases last year slightly exceeding $7,000,000.

These figures represent only the direct shipments from the United States to the colonies; there can be no doubt that a very large trade in American goods also finds its way to the empire by way of the mother country. The tendency within the last few years, however, has been for American export houses to seek the most direct channels for their operations, and we may therefore expect a steady increase in these figures. One particularly striking item is that of our direct exports to Morocco, which were less than $80,000 in 1913 but rose to $3,250,000 last year.

In almost every one of the French colonies we are to-day contributing a larger proportion of their total imports than before the war. In fact, our percentages in most cases have more than doubled. This

is due very largely to the fact that in the course of the exploitation of their latent resources, American mining machinery, road-building equipment and agricultural implements, which have been so well tried out in the development of our own western and southwestern "wild lands," have been found to be particularly adaptable.

Although we have no figures on American capital in the colonial empire of France, there can be no doubt that a good portion of our heavy investments in the mother country have indirectly reacted upon the development of the oversea possessions. In fact, this has probably accounted in part for the truly amazing figures of American holdings in France and of French securities, which rose from $75,000,000 in 1913 to more than $650,000,000 last year.

With our rapidly increasing industrial development, America is coming more and more to the fore as the leading market for the largest single share of the world's tropical raw materials. It is therefore not surprising that our importers are looking to the extensive French possessions for many necessary supplies. Since 1913 our purchases directly from the colonies have risen more than sixfold—from $2,000,000 to nearly $13,300,000 in 1927. As in the case of exports, a very large part, perhaps the major portion, of our imports from the French colonies come by way of the mother country and therefore do not appear in the above figures. As the standard of living and the industrial necessities of the United States continue to grow, we shall be taking a steadily larger portion of such essentials as rubber, cacao,

vegetable oils, coffee and spices from the French empire.

In the case of rubber, the recent investigations of the Department of Commerce as to the possibilities of securing a larger proportion of our crude supplies from territory outside the influence of the then-existing British restriction policy (discontinued November 1, 1928) revealed encouraging possibilities in French Indo-China, where climatic and labor conditions are decidedly promising. Although the production is as yet limited, surveys revealed the fact that the yields there are likely to be more consistent than elsewhere, because of the uniformity of the soil. If legal and taxation policies with reference to foreign holdings are maintained on their present favorable footing, the industry is likely to look to that extensive French possession as one of the helpful correctives of any possible future abuses of a restriction policy in the British areas.

An important angle of the future expansion of the French empire is in connection with the growth of investments of capital from the homeland in the colonial possibilities. Before the war Russia was far and away the most attractive foreign field for French capital, which had nearly $2,300,000,000 invested in projects or security flotations in the empire of the czar. This was three times as much as the amount in the second country on the list—namely, Spain. With the complete elimination of Russia as an investment field for French capital, at least for some time to come, there has been evident a diversion of a rapidly increasing proportion of French investments to the colonies. The above pre-war Russian

total represented about 30 per cent. of the total French capital in foreign lands, practically all of it drawn in small sums from the savings of the people. Recent colonial flotations have been based largely upon the same foundation, and, with the well-known frugality of the French farmer and the steadily improving economic position of the motherland, we may expect a rapid increase in these investments in colonial enterprise.

Strictly speaking, the New World does not enter into the picture of the new economic French empire, with the exception of the very small and commercially unimportant island possessions and Guiana. In a larger sense, however, Latin America is being distinctly kept in view in the general development of these oversea economic programs. The combination fast ship-and-air service between Paris and Buenos Aires is linked up with the traffic across the African possessions. Furthermore, there are large and steadily increasing commercial and financial interests of the French, with consequently substantial French commercial colonies, in most of the Latin republics, notably in Brazil, Argentina, Chile and Mexico.

The program for binding the important competitive markets of southern South America directly with Paris by this new service is of unusual interest. The scheme was subsidized to the extent of more than 60,000,000 francs by the French Government for 1928, with probabilities of further advances as the project requires. The service consists of an air link from Paris to Dakar at the westernmost tip of French West Africa, thence by seaplane to the

Cape Verde Islands (three and a half hours flying time), then by fast boat to the island of Noronha (about three days), which lies about 400 miles off the Brazilian coast. The trip from there to Buenos Aires is by a series of air links. The running time on the first through trip was twelve days, which was just about half the time required by the usual steamer services. Eventually, as the plan is worked out, it is expected to make the run in seven and a half days between the two capitals. The best steamer service from New York to Buenos Aires is now about eighteen days. Although at present it is not intended to carry passengers without special governmental authorization, nevertheless it is anticipated that this lucrative traffic will be taken up as the practicability of the service is demonstrated.

The chief commercial importance of the service is in the very substantial savings in interest through the quick transmission of trade documents, securities, etc. The notable advantage which the French and other European enterprises will enjoy over their American competitors in the Brazilian and Argentine trade because of this factor can readily be appreciated. There is no means of gaging accurately the amount that is likely to be saved through such greatly expedited transmission of trade documents, but it will certainly run into millions of dollars each year. A recent estimate as to the probable annual savings of a similar service between New York and Buenos Aires ran well up into eight figures.

One striking feature of the traffic will be the transmission of newspapers, magazines, fashions and high-value luxury goods. None of these involves any

serious direct competition with the United States, but their value in stimulating a closer commercial bond between South America and the Old World cannot be denied.

Thus far, French post-war trade with Latin America has not fared particularly well. In fact, in no case is its actual volume up to pre-war figures. Indeed, in spite of greatly increased prices, French sales to Brazil and Chile are below those of pre-war years in value, while those to Argentina have shown only a slight increase. Cuba and Venezuela are the only Latin-American markets of consequence in which French exports have demonstrated any recuperative power since the war. In every Latin-American country of consequence the proportion of total imports supplied by France is less than in pre-war years. To take the three largest South American markets: France supplies to-day in Argentina, Brazil and Chile an average of about 6 per cent. of the total imports, as against 9 per cent. in 1913.

The question has arisen, with reference to our prospects in the French colonial markets, as to whether we are likely to encounter the type of preferential tariff barriers favoring the mother country which have been met in many of the British dominions and colonies. Most of the units in the French colonial empire, with the exception of Tunisia and Morocco, are of the class known as "assimilated colonies"; that is, they are included within the customs régime of France, and goods moving between the mother country and the colonies are not subject to duty in either direction, whereas similar products from any foreign country are required to pay

the same duties in the colonies as in the home country. Competitive French products, therefore, have a distinctive preferred position as against American and other foreign wares, but of course this is in no sense subject to criticism as an unjustly discriminatory procedure, since it is similar to the practice of most countries, including our own. Alaska, Hawaii and Porto Rico are all "assimilated colonies" in the same sense. In the case of Tunisia and Morocco the tariffs give only partial preference to French products, the list of favored commodities being especially large in the case of the former.

With the colonial markets assuming a steadily increasing part in the economic régime of France, particularly in the stabilization of the trade balance, we may anticipate a steadily increasing intensity of effort on the part of the mother country to strengthen her commercial bonds with the oversea possessions. Consequently, at least some of the difficulties which our exports have recently encountered in connection with the French tariff and other trade-regulatory policies may be reproduced on a minor scale in some of the colonies. Nevertheless, as the latter continue to develop a larger market in the United States for their raw materials and as their requirements demand increasing quantities of American equipment for the further exploitation of their resources, it may be assumed that even the obstacles that have been mentioned might be overcome at least in part. The new economic empire of France bids fair to assume an increasingly important part in our oversea commercial and financial activities.

CHAPTER XVI

THE "CHINA TRADE"—OLD AND NEW

FEW, if any, aspects of our entire commercial history have been more picturesque, more strikingly fantastic than our interchanges with "Far Cathay." The romance of it seems to be perennial. Indeed, its often dramatic qualities were never more clearly emphasized than in the summer of 1928, when with one sudden stroke our Government, through a tariff agreement, in effect extended *de facto* recognition to the new nationalistic régime in China.

Our China trade is as old as the Republic. In fact, it seems to have had its definite beginnings with the very birth of our nation. In 1783 our first trading vessel visited Canton, the one Chinese port then open to foreign vessels. Major Shaw, its supercargo, held a commission from the Continental Congress as consul in Canton—our first official bid for trade in that far-off area. From then on through the epic "sea years" of our national history at the opening of the nineteenth century, before the great westward march of our civilization had been launched in volume across the continent, through each successive stage of our economic advance that trade has mounted steadily and surely and always with the atmosphere of picturesque fantasy.

It figured as one of the major reasons for the vig-

orous defense of our merchant marine rights in the War of 1812. It had a large part in the building up of such famous fortunes as those of Stephen Girard of Philadelphia, Elias Derby of Salem and many other merchant princes of that golden age of the clipper ship. It was partly accountable for those way-station supply posts, the scattered settlements of Americans on the coast of California in the early Spanish and Mexican days. They were the venturesome pioneers who blocked the southward Russian aggressions from Alaska and in that connection had much to do with the declaration of the Monroe Doctrine in 1823. Their interests were among the lures that led Frémont on his daring expedition, the culmination of which was the acquisition of the great coastal empire.

From the very beginnings the China trade has enjoyed the special solicitude of our Government. It was greatly stimulated and regularized through our treaty with China of 1844, by which our trade contacts were extended to five ports in addition to Canton. In 1868 a pretentious Chinese delegation visited Washington and negotiated a new commercial understanding between the two governments. Then followed a succession of various revisions culminating in John Hay's famous "open door" declaration in 1899, an immediate aftermath to the acquisition of our foothold in the Orient, the Philippine Islands.

The treaty of 1903 came as the logical sequence to this; and finally we have the new historic document signed last July, which opens a way to tariff autonomy for the new régime. This comes as a fitting climax to the seventeen years of vast metamorphosis

which has been stirring that ancient land to its very foundations. It would seem as though, in the words of one of China's new leaders, the period of military activity was ending and the phase of reconstruction had definitely begun.

This new agreement, which becomes effective on February 1, 1929, and marks a definite concession, means that for the first time since China entered into formal relations with a foreign nation she shall have the right enjoyed by all sovereign peoples of levying such customs duties as she chooses upon her incoming and outgoing trade. It should be made clear at the outset, however, that this document in no way sacrifices any American trade prerogatives as against our competitors in the China trade, for the treaty stipulates that our commerce in this matter is to be upon the same footing as that of any other nation.

The spectacular leadership which our Government has thus taken may in time be rated in the history of Oriental commerce as one among the great mile-stones of its development, almost as significant in a way as the opening up of Japanese trade by Commodore Perry, the promulgation of that first American-Chinese treaty of 1844, or John Hay's historic pronouncement. It should, therefore, be a matter of profound gratification among our people that we have once more taken the leadership in bridging the Pacific with the bonds of effective, mutually helpful commerce.

The bewildering confusion of Chinese affairs in recent years has probably filled many of our citizenry with a more or less perplexed discouragement

as to the general outlook for that land of pagodas, mandarins and missionaries, or seemingly endless Changs or Chiangs among its generals, or secret subtleties and crafty foreign intrigue, all bound up in a hopeless welter of unpronounceable geographic names. The "changeless Orient" and "impassive East" have certainly passed into history in the course of this truly momentous transition period, which with startling vividness has wrought profound transformations in many basic social and economic elements. Time-worn incrustations of custom, age-old shells of tradition are beginning to crumble under the vibrations and pressure of the new life; modern methods and modern points of view are certainly penetrating the ancient molds.

The commercial history of the world has been a story of frontiers, of pioneer traders adventuring ever westward in search of new lands, new raw materials and new markets. This movement started from China, the oldest highly developed civilization of history; struggled through into Persia and the ancient empires of Asia Minor and Egypt; started Macedonia and Greece on their careers; made Rome the mistress of the world; and established Europe as the center of Western civilization. But the urge was steadily westward and always with the pressure of the search for new trade. Finally, the hazardous gap of the Atlantic was spanned and America became the great frontier of the merchant adventurers. Then came the westward march across the continent, always with the traders in the van, culminating in the construction of the transcontinental railways and the Panama Canal.

Now the circle is complete. The last great frontier has been conquered and we come to a new era of world history, so dramatically prophesied by Seward at the time of his negotiations for the purchase of Alaska. The Pacific then became the theater of the latest phase of commercial advance. America, with an economic and industrial organization which is the fruit of centuries of world progress, is facing, across the Pacific, what is at the same time the oldest and the newest trade area, China.

At last, Western civilization is intimately and directly in contact with the goal of Marco Polo, of Christopher Columbus and Magellan, of the Cabots and Henry Hudson, and of scores of other valiant spirits, most of them heartbroken like that seventeenth-century French explorer who perpetuated his bitter disappointment in failing to reach his goal by leaving the name of La Chine on one of the rapids of the St. Lawrence River. For centuries the China trade has been the magnet that has guided the efforts of thousands of venturesome traders.

With such a truly dramatic setting it is not surprising that the recent striking developments have been quite in keeping with the past traditions. Indeed, one of the outstanding developments of our post-war commerce, so far as its general acceleration is concerned, is the literally astounding growth of our trade with China despite all civil disorders, disruptions and general uncertainty. Among our fifteen leading markets abroad, China has registered, since the opening of the war, the third largest percentage of gain in our exports, having been exceeded therein only by Japan and Australia. Our sales to the

eastern republic, including of course the ports of Hongkong and Dairen, averaged 31,4 millions of dollars each year during 1910–14; they reached 165 millions in 1928—an increase of more than 400 per cent. over the pre-war years. (Our *total* exports advanced from $2,486,000,000 in 1913 to $5,129,000,000 in 1928.)

With such a record in the face of constant discouragements and disruptions, one can well imagine what will be the development as soon as conditions become more nearly normalized and public order more widely maintained in China.

Nor is the picture entirely one-sided. China's sales to the United States have grown very rapidly in this time, having increased from 38,5 million dollars before the war to 156,6 millions in 1928—or 300 per cent. This has given China ninth place in the list of our foreign sources of merchandise, far ahead of such important trading nations as Italy, Argentina, India, Mexico, Australia and Spain.

Equally significant with these rather striking figures is the fact that the relative importance of China in our commerce in both directions has registered a substantial gain. She took only 1 per cent. of our exports in pre-war years, whereas her average share during 1921–25 was 2.4 per cent. Similarly, in the matter of imports she has supplied us with slightly more than 2 per cent. of our total incoming commerce during 1910–14, but the average for 1921–25 was 4.1 per cent. Clearly, therefore, the China trade has taken on a new and relatively far more significant aspect. Even with liberal allowances for price changes, these figures represent one

of the record increases in our commerce with any land during that or any comparable period.

This would seem to be an effective answer to the false assumption that the conflict in China has destroyed commerce. Naturally, there have been countless obstacles to trade as a result of the disturbances, but, as in the case of Mexico and other economically "new" lands, the very backwardness of China's commercial and transportation organization has been an advantage in this respect. Troubled zones have been effectively "insulated" and trade elsewhere has gone on very much as before.

The causes of this extraordinary commercial revolution (for such it has been indeed) are various, but chief among them has certainly been the awakening of new demands, new commercial vitality, and aspirations for better living standards among China's millions. Their war-born nationalism, stimulated by their economic isolation during 1914–18, has been reflected in these truly impressive transformations. Then, too, on the import side, there has been, of course, the vigorous impulse given by the tremendous increase in the needs of our new and extending industries for additional raw materials and the demands of our increasingly prosperous people for more exotic products and Oriental specialties —silks, laces, furs, perfumery ingredients and other luxury and semi-luxury items in which China has long specialized.

But this truly amazing advance should not blind the far-sighted observer to the glaring defects in China's general economic organization. Transportation facilities are, of course, primitive to a degree.

She has less than 8000 miles of railway, as compared with our 265,000, and these lines are far from satisfactory as to equipment and maintenance, in consequence of the rigors of wartime abuse. There are about forty radio stations in the country, some 31,000 miles of telegraph wire and about 100,000 telephones, as compared with 1,850,000 miles of telegraph lines in this country and 15,000,000 telephones. China has only 20,000 automobiles as compared with our 20,000,000, and her highways, with a few exceptions, are merely primitive trails, save for a narrow network of metal roads near the treaty ports.

In this connection, however, the war has indirectly been decidedly helpful. The acquisition of enormous quantities of motor vehicles for military purposes has brought home the imperative necessity of better highways, and the good-roads movement is already well under way. China is favored with an extensive river system and many connecting links of canals. In fact, it is likely that the development of this valuable system of waterways will be an important feature of the first stages of rehabilitation.

Much has been said in recent years about China's supposedly boundless mineral resources, but these statements, after careful scrutiny, proved to be considerably exaggerated. Her coal and iron deposits are far superior to those of any other Far Eastern country. They are the mainstay not only of her own industrial future but of Japan's as well, which fact is an important point in the relations between the two. Gold deposits are scattered throughout the country, but their exploitation has been retarded

through lack of transportation facilities. Her chief importance as a mineral producer, so far as the rest of the world is concerned, is in the field of those rare substances, antimony and tungsten, so valuable in the manufacture of bearing metals, type and high-grade steel. She supplies about 75 and 50 per cent. respectively of the world's stock of these two useful alloys.

In other lines her resources are substantial. She is the world's third producer in cotton, her output averaging about two and one half million bales, or about a fifth as much as the United States. She also produces about 400,000,000 bushels of wheat and about a billion of rice. One of her most interesting vegetable products is the soya bean, which is valuable as a source of vegetable oil, as a fertilizer and for cattle feed. It is the oil from these beans which the Chinese chefs use abundantly in conjuring those mysterious dishes so alluring to our chop-suey addicts.

China's resources of silk and tea are, of course, well known and scarcely require comment. Of tea she exported 112 million pounds in 1926—certainly an ample supply for brewing a vast sea of that universally popular beverage. The uses of silk are steadily expanding and creating new outlets for her increasing production not only for wearing apparel but for numerous new industrial purposes which range from radio-set insulation to parachutes for aviators. It is one of her most ancient and famous products. Before the dawn of the Christian era, banners of Chinese silk made their way to the Caspian Sea and there met the pennants of Macedonia and

later those of Rome. Thus the way was paved for the introduction of China's lustrous fabric into Western markets. Her trade in raw silk last year amounted to more than $100,000,000.

There are many other exotic specialties of China which figure in the world's trade—bristles for hairbrushes, the export value of which exceeded eight million dollars in 1926; human hair, though the decreasing demand for hair nets has steadily impaired this once prosperous industry; musk, which is the basis of so many of our expensive perfumes; camel's hair for our smart sport coats; gall nuts or "oak apples" for the manufacture of high-grade writing inks; fire-crackers, rugs, jade and countless other articles. China is one of the largest exporters of eggs and egg products. Much of our import trade in "Irish lace"—in fact, nearly all of it—now originates in the mission schools where the deft fingers of Chinese children have been trained for this purpose by Canadian and Irish nuns.

This brings up the question of the possibilities of industrializing this hitherto predominantly agricultural people. With a vast population of 400 millions, nearly equal to that of the whole of Europe, with an area greater than that of the United States and Mexico combined, and with corresponding variations in climate, topography and, therefore, resources, the possibilities of industrialization would seem to be very promising. It was not, however, until 1890 that the first smoke-stacks of modern factories appeared on the Chinese horizon among the quaint pagoda roofs. There are now hundreds of industrial plants, largely cotton mills, with some

3,600,000 spindles (one tenth as many as ours), about 160 modern flour-mills turning out 120,000 barrels a day, more than 400 electric-light and power plants, and hundreds of lesser establishments producing various fine fabrics, glass, porcelain, paper, matches, etc.

Our sales of raw cotton to China have actually increased because of this industrialization. They totaled about $530,000 in 1913, but advanced to $18,000,000 in 1928.

Furthermore, there is the resultant increasing market for machinery, replacements and supplies, which we are in an excellent position to provide. China bought $4,500,000 worth of machinery of all types from us in 1928—six times as much as in 1913. Even more important is the fact that this industrial development involves the payment of wages which yield a much higher income to thousands of natives than they would otherwise enjoy; it has already had a marked effect upon their purchasing power. The old industrial order in China was of the primitive, household variety, an intimate adjunct of the barter stage of trade, the lowest form of commercial life. With the newly stimulated buying power the market for many classes of American goods hitherto unsalable in China has come into being.

Improved Chinese living standards have brought about a striking growth in recent years in our exports of wheat flour, especially from the Pacific coast in years of rice crop shortages. A profitable business has thus originated for many of our western mills in competition with Australia and Canada.

Similarly, dried fruits (notably raisins), flashlights, radio sets, canned vegetables, toilet requisites and even chewing-gum are beginning to figure in our transpacific sales. As yet, some of these represent individually only moderate values, but they are straws indicating the direction of the trade winds of the future. These little imported luxuries are certain to be more and more in demand as the standard of living rises in China, and our share in supplying them should be a substantial one.

In the staples which have long figured prominently in Chinese imports we continue to maintain a strong position in spite of some losses through competition. Our trade in petroleum products is conspicuous in this respect, as is also the export of iron and steel, lumber and timber. Trade in these staples, while not capable of particularly rapid expansion, has nevertheless been increasing steadily as a result of the improved industrial activity of the country.

It would be unduly optimistic to infer from the highly encouraging figures just given that this great and growing market is ours for the asking. As China recovers, competition is bound to be more acute, particularly from England, Germany and Japan. It is, however, very gratifying to know that our share in China's imports has risen from 6 per cent. in 1913 to 16 per cent. in 1927, one of the largest growths of this type recorded anywhere in our foreign trade. Meanwhile, Japan's proportion has risen from 20 to about 30 per cent. in the same period. Fortunately for us, perhaps, the purchasing power of China has increased so rapidly that these gains of ours have been only to a moderate degree at the expense of our

competitors; they have been made up largely of sales of characteristic specialties of American factories. But the time is certainly coming when we shall have a real struggle on our hands as the rehabilitation of the republic gets under way and creates more and more lucrative opportunities for imported wares.

Britain has the advantage of having been more continuously aggressive in the cultivation of her China trade, which is well served by many great British trading houses firmly established as the result of years of unbroken operation. But she specialized heavily in the cotton-goods trade and has therefore been hard hit by the new mills in China. Germany, though temporarily embarrassed through the interruption of her activities there during the war, is now making strenuous efforts to regain her former position, particularly in dyes, machinery and hardware. Her credit policies, however, which are frequently cited as models to American merchants, seem once more to tend occasionally toward the unduly extravagant, as in pre-war days.

With all of this momentum in recent years, the China trade still has many aspects of antiquity which must be closely observed. Old habits which vitally affect buying conditions have been deeply intrenched in that ancient land. The work of modernization is an inconceivably gigantic task. In many basic economic matters the great impervious, inarticulate mass of the Chinese people moves with an almost glacial slowness. Great changes are evident here and there on the surface and in a few strata and regions, but in many essentially personal matters,

affecting the buying preferences of individual consumers, it will be many years before the depths have been greatly stirred.

Widespread illiteracy will long qualify the type of trade effort which can be made in that country. It makes the motion-picture film a valuable adjunct to selling. It stresses the necessity of very careful observance of the "chop"—not China's favorite pork chop but the generic term for a trade-mark or brand which serves as the invariable indicator to millions of purchases throughout the country. The inclusion in the chop of certain colors distasteful to the Chinese for various religious or traditional reasons, or such innocent devices as pictures of dogs, turtles or rabbits, will completely nullify the most aggressive type of sales campaign. They have meanings for the Chinese mind which we do not associate with them. The Chinese showed an aversion at first to a certain little gnome-like figure used in advertising a well-known brand of chewing-gum. It was viewed with superstitious fear as a "bad joss" or bad-luck imp. But this attitude has been gradually overcome by various means, and the little goblin is now looked upon with favor. A well-known type of condensed milk immediately established its good repute by picturing its trade-mark eagle carrying a boy baby in its beak, which promptly commended the article to the son-loving Chinese.

Many far-sighted and shrewd American sales executives have availed themselves of that ancient institution, the wandering story-teller. He now entrances his village audiences with sundry embellishments to his tales of mighty warriors and savage

dragons by including occasionally more modern touches alluding to magical new patent medicines, cigarettes and other American specialties.

And so it would seem that there is still much of the old in the new China; but it is by no means impossible for American commerce to take advantage, quite legitimately and properly, of that mingling of the ancient with the modern. The opportunities are there. We have already capitalized them abundantly. Our task is now to maintain our present rate of progress, to be sure that our trade keeps pace with the new China as it emerges from its ancient shell.

CHAPTER XVII

THE UNITED STATES AND ARGENTINA

A FEW years ago certain prominent officials in Providence, Rhode Island, were mystified to receive a query from the Argentine embassy in Washington regarding the whereabouts of the tomb of Horace Mann, the distinguished American educator, whose great work in the middle decades of the last century laid the foundation for our public-school system. The Providence dignitaries were puzzled as to the possible reason for Argentine interest in the great teacher who was a graduate of Brown University in their city, near which he was supposed to have been buried. And, incidentally, they were not a little chagrined when considerable difficulty was encountered in locating the grave of their great fellow-townsman. After much searching, his last resting-place was finally found, and a few days later, with considerable ceremony, the Argentine ambassador placed a wreath upon it. He had come to pay this tribute from the Argentine people, whose public-school system owed its origin indirectly to Horace Mann through his friendship and intimate association for some years with the great Argentine publicist Sarmiento while the latter was an exile in New England. So our relations with Argentina have had

their intellectual as well as their commercial aspects.

Despite the apparent similarity of products and economic conditions of the two countries, which might lead to rivalry in each other's markets rather than to intimate trade relations, there has for decades been a constant flow of commerce in both directions between these great temperate-zone republics of the New World.

One of the first shipments of manufactured exports from the United States was a cargo of furniture sent in the bark *Superior* in 1801 from Providence to Buenos Aires. That marked the beginning of a trade in fabricated wares which has developed with increasing vigor in the passing years—a trade which was given renewed impetus with the growth of shipping traffic from our Atlantic seaboard to the Pacific during the great days of the clipper ship, the whalers, the China trade and the California gold rush. The vivid pages of Dana's "Two Years Before the Mast" present many picturesque details of this trade in south-bound manufactured wares and northward shipments of hides, tallow and other live-stock materials for consumption in the United States.

To-day Argentina is our leading Latin-American market, having displaced Cuba in 1927. In 1928 she bought nearly as much of our merchandise as the three next South American countries taken together —namely, Brazil, Colombia and Chile.

There has been some bitterness in the press of late in reviewing the trade relations of the two republics regarding the uneven trade balance between

them, with its heavy discrepancy against Argentina, and the drastic effects of their respective tariffs, the Argentines alleging that ours has impaired our imports of their linseed and wool, and American exporters accusing theirs of obstructing shipments of many fabricated lines so as to stimulate uneconomic local industries in Argentina. Occasionally, also, fears are expressed in the southern republic as to the dangerous effects of the subtle penetration of the dollar. There are charges that our restrictions in recent years on alfalfa seed and meat imports have been unduly harsh. To match this, American shippers of foodstuffs have complained about what they describe as arbitrary and discriminatory Argentine rulings on American canned goods, and about unduly severe pure food laws, generally with contradictory requirements in municipal and national regulations. Strongly nationalistic Argentine petroleum legislation is likewise said to be the cause of some concern among American companies.

It is, of course, impossible to review in detail all of the pros and cons of those highly contentious questions. Much less is it feasible in the present survey to examine in detail the bitter charges made by the five or six Argentine literary and academic figures who have taken the lead in much of the anti-American propaganda that has emanated from Latin America in recent years. But the major problem which can properly and frankly be analyzed here is the actual status of Argentine-American economic —particularly commercial—relations, and of that subject it would seem appropriate at this time to make a brief factual analysis.

The first and most obvious point is the very substantial gain in the trade in both directions. Some of the more partizan discussion has conveyed the impression that the commerce is excessively and abnormally lopsided and that it has involved primarily a systematic exploitation of the River Plate trade by our manufacturers, with no compensating northward-bound traffic. It is true that our exports have increased more than 279 per cent. since prewar times, the total having risen from $47,200,000 on an average during 1910–14 to the impressive figure of $178,899,000 in 1928. It is true also that these export figures represent a substantial balance in excess of the imports. But the latter have been far from stationary, having risen from $32,900,000 to $99,485,000 during the same time. Surely any traffic which has trebled in value (with a more moderate increase in volume) cannot be described as dormant or neglected.

Even more significant is the increasing *relative* importance of Argentina's exports to the United States as compared with her sales to other countries. In 1913 we took 4.7 per cent. of Argentina's total exports, but in 1927 our share was 7.6 per cent. In other words, we have nearly doubled our proportion of her total oversea sales. Meanwhile, the share of her exports which has gone to each of her other major markets has remained almost constant. The United Kingdom took 24.9 per cent. of her total exports in 1913 and 25.1 per cent. in 1926. Germany's share declined during the same time from 11.9 per cent. to 10.3 per cent. and that of Belgium rose slightly from 6.7 per cent. to 7.5 per cent.

We were her sixth best customer in 1913, but to-day we stand third, with every prospect that we shall be second within a year. To allege, therefore, that the United States is simply interested in the exploitation of Argentine markets is to ignore entirely the trend clearly indicated in the statistics of our rapidly increasing importance as a market for Argentina's products—a rate of advance which cannot be approached by any of her other customers.

And, after all, this is but an inevitable development. The steadily growing demands of American industries for Argentine raw materials have stimulated a host of new trades. The largest single item in our imports from Argentina to-day is linseed, which was scarcely visible at all in the pre-war statistics; the shipments were worth $210,000 in 1913, but in 1928 they exceeded $25,500,000 and accounted for more than one fourth of our total purchases. Other notable gains have been made in quebracho, tanning extract, hides, skins and furs.

Much has been said of late by way of criticism of the tariff treatment by the United States of Argentine commodities. This is not a proper forum for such a highly contentious subject; nevertheless, it can be pointed out that while approximately 60 per cent. of our imports from Argentina are subject to duty, about 80 per cent. of our shipments to the southern republic are dutiable.

Furthermore, the revenues collected by the United States in customs duties on the chief imports from Argentina were approximately $15,500,000 in 1925 (the latest available comparable statistics), which was about 3 per cent. of the total United States cus-

toms revenues from all sources; whereas the revenues collected by Argentina from duties on imports from the United States in that year were approximately $31,500,000, representing about 25 per cent. of her total customs revenues from all sources.

Clearly, our exports to Argentina make a much larger contribution, not only proportionately but in absolute values, to the customs revenues of that country than do the shipments of the southern republic to this country. But, after all, this is a natural situation when one considers the types of commodities involved. Tariffs are either for the protection of new domestic industries or for revenue. Argentina's raw materials coming into the United States, excepting those that compete with some of our farm products, such as wool and linseed, would normally be free of duty, as indeed they are. Argentina, on the other hand, feels that certain expensive manufactures can stand a tariff for revenue; furthermore, she is anxious to develop some manufacturing as a means of diversifying her economic system and also by way of relieving her inhabitants of the high transportation costs to that distant market. Consequently, her tariff system is devised to stimulate assembling plants by favoring the importation of partly finished wares.

President McKinley, in his last public utterance, delivered at the Pan-American Exposition in Buffalo on September 5, 1901, just a few hours before his assassination, discussed the necessities of two-way traffic with our southern friends: "We must not repose in fancied security that we can forever sell everything [to Latin America] and buy little or

nothing. If such a thing were possible it would not be best for us or for those with whom we deal. We should take from our customers such of their products as we can use without harm to our industries and labor." The statistics of our rapidly increasing imports from Argentina clearly indicate that this sound doctrine is being carried out to the letter.

The agitation which is being carried on in some of the southern countries, that "we [the Latin-Americans] should buy from those who buy from us," proposes, after all, an abnormal boycotting effort; but the currents of commerce find their logical and proper levels because of the profound economic forces of supply and demand set in motion by the ability to gratify that demand. Any attempt to divert them artificially is apt to be costly, futile and, so far as Argentina is concerned, quite unnecessary, since the trend of our importations from the great southern commonwealth is steadily on the up-grade. The continuance of prosperity, increasing population and a higher standard of living in the United States is the best assurance of rapidly increasing markets here for her raw materials. That is why we are taking double the proportion of Argentina's total exports to-day as against the last pre-war years.

After all, the trade relations between any two countries are not on a completely reciprocal and precisely balanced parity so far as the exchange of goods is concerned. There are no two nations in the world whose economic systems are so nicely correlated as to make the traffic between them exactly equal in both directions. Nations buy from one another because they need their respective

products and can buy them at reasonable prices. Our purchases from Brazil and Chile are much heavier than our sales to those two countries because we have a relatively greater need for their coffee and nitrate respectively than they have for our goods. We bought a vastly greater quantity of merchandise from certain countries in the Far East than we sold to them simply because most of their requirements are supplied by European countries producing types of cheap commodities which meet the bulk of the demands of those Oriental peoples.

International trade seeks its levels of ultimate balance and adjustment along triangular or polyangular routes rather than on any idealized scheme of simple two-way traffic between nations whose respective industries are completely reciprocal. Much of the agitation along this line which has been directed against American goods in the River Plate is, of course, not countenanced by the intelligent, farsighted Argentine leaders, but is stimulated by our European rivals who are endeavoring to capitalize every aspect of anti-American feeling.

After all, the striking parallel in the economic development of Argentina and the United States offers many opportunities for mutually helpful economic relationship. The agricultural and pastoral development of our Middle West was so strikingly like that of Argentina's that, although some of our products still compete with those of the southern republic, there is also a basis for understanding among our western industries—agricultural implements, farm supplies, etc.—whose experience in meeting the needs of our own farmers puts them in a posi-

tion to serve effectively the similar demands of the *estancieros* of the pampas. In each case the problems of long credits and of seasonal turnovers have been to the fore, and the success of our exportations of agricultural implements, trucks and farm equipment generally is due primarily to this similarity.

Much has been said in the past, by those who would discourage our efforts in Latin-American trade generally, about the alleged inadequacy of our credit terms, but the irrefutable fact remains that the operations of our exporters, whose firms have had long experience at home, in selling such equipment, as well as sewing-machines, automobiles, etc., on the instalment plan or long-time payments has been an outstanding element in the success of our trade with the River Plate countries.

Furthermore, so far as industrial growth is concerned, Argentina has been faced with precisely the same problem of labor shortage that has been constantly before our manufacturing concerns. Labor-saving machinery is therefore a paramount necessity, and in this field American inventive genius has been compelled to develop every ounce of its ingenuity. For this reason, as the program of industrial diversification proceeds in Argentina, there should be abundant opportunities for mutually profitable relations with American manufacturers of machinery, factory equipment, supplies, etc.

An impression has been current in some quarters that our trade with Argentina is faced with disaster because of the inroads of European competition. Our headway in recent years in that market, it is alleged, has been based largely upon ill-gotten

war-time loot, which would be taken from us as soon as our European rivals were prepared to make a real effort. As a matter of fact, they have had ample time for such a "reconquest," but the problem is not one of pilferage of trade as between European and American rivals.

Our exports to Argentina are very predominantly made up of commodities which Europeans have never supplied in abundance and show no prospect of providing. In 1928 our major export items were very prominently connected with the automotive trade —$44,780,000 worth of automobiles, trucks and parts, $9,323,000 in gasoline and $2,049,000 in lubricating oil. In each of these items Europe is a heavy consumer rather than a substantial exporter. If to these items are added other outstanding American export specialties such as motion-picture films, farm equipment, office appliances, ready-made clothing, etc., we discover that the bulk of our export trade to Argentina was in no sense "stolen" from European traders. Its progress is therefore dependent not on what the latter may do but on the steadily advancing living standards and buying power of the Argentine people.

This accounts for the fact that our share in Argentina's total imports has risen from 14.7 per cent. in 1913 to 24.7 per cent. in 1926, whereas the proportion of the United Kingdom has declined in the same time from 31 per cent. to about 19 per cent. and that of Germany has fallen from 17 per cent. to 11.4 per cent.

The European drive for the Argentine trade is therefore quite properly directed primarily (though

naturally not entirely) at that vast latent buying power which we are also capitalizing, rather than at the prospect of expelling our merchants from this lucrative trade area. There can be no doubt about the intensity of the effort now being made by the leading European nations in that market. At least a half of the total South American export commerce of England and Germany finds its outlet in Argentina. Obviously, some of that is in direct competition with our traffic, but the actual volume of overlap as between our potential sales and those of Europe is not so great as one would suppose on the basis of the complaints made by occasional sufferers in competitive rivalries. A recent editorial in "The London Times" points out that despite the Argentine prejudice felt against the United States as a "neighbor at once materially powerful and spiritually alien, the American salesman has been able to secure a market in the Argentine by providing articles his buyers really want. The power to offer a standard article cheap, combined with a willingness to take extreme pains over the selling, is standing the Americans in very good stead."

The problem of improving trade relationships between the United States and Argentina is occasionally complicated by the more exuberant enthusiasts whose after-dinner orations imply that the great southern republic offers absolutely unlimited trade possibilities. This view is, of course, quite as erroneous as that other absurd assumption—that, being Latin-American, Argentina is simply a nest of revolutions, indolent half-breeds and primitive fron-

tier life, characterized by picturesque movie costumes and exotic dances.

Well-informed Argentine leaders realize fully that there are still tremendous obstacles to be overcome, roads to be laid out, water-power to be developed, provincial fiscal shortcomings to be adjusted, inland settlements of small farmers to be encouraged, and, above all, a much greater diversification to be introduced into agriculture and industry. Even after these improvements are accomplished, there will still be formidable climatic and geographic obstacles which will impair for years the maximum economic development of vast stretches of the opulent commonwealth. Such problems as the periodic locust plagues, inadequate rainfall and forestation, deficient domestic road-building materials and drainage difficulties are major problems which will require the utmost effort of that energetic and resourceful people.

But these difficulties have been precisely matched in many parts of our own westward expansion. Clearly, therefore, the commercial relationships between the two countries will be bound to grow steadily more intimate. That is one reason why American capital has instinctively found an outlet in Argentina in the development of the packing industry, mining, and of other undertakings similar to those of our own Middle and Far West. The total American capital now invested in Argentine enterprises, including government bonds, is $600,000,000 as compared with $40,000,000 in 1912. Even with reference to cultural contacts, though the Argentine

instinctively feels the racial and linguistic bond with Latin Europe, there is much of the culture of the western world in both of its continents that is unique as contrasted with Europe. Each of these republics has the same sturdy society of vigorous, recently frontier peoples—and in this respect there is bound to be a continuing *rapprochement* between their respective engineers, industrial leaders, technical educators and scientists. Cultural and other deep bonds between nations cannot be taken for granted merely on the basis of similarities of language and laws; witness the decided contrasts between the whole social fabric of England and the United States.

The problem of improved economic relationship between the two countries would seem to resolve itself not into any question of respective superiority or inferiority of this or that item, or seeking out a nicely balanced, "logical" but entirely uneconomical parity of two-way commerce, but rather of discovering the many ways in which the economic and industrial experiences of each may be helpful to the other. It is indeed gratifying to observe the substantial progress that has already been made along this line and the encouraging promise thus afforded as to the future.

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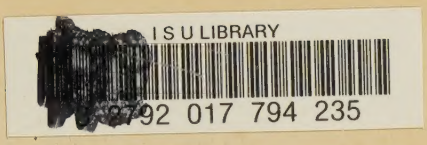

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